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Working Paper No. 61

Mid Year Review of the Economy - 1985

by

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1. Prolegomena

1.1. This mid year review for the year 1985-86 has certain features. The year marks the end of the Sixth Five Year Plan and the start of the Seventh Five Year Plan. There are therefore references which go beyond the ambit of the year being reviewed, with frequent references to the past five years and the averages and trends that they indicate, and some prognosis with regard to the next five years represented by the Seventh Five Year Plan.

1.2. The Sixth Five Year Plan statistics are for the first two years still in the stage of provisional estimates: those for 1982-83 and 1983-84 are CSO's quick estimates, while the accounts for 1984-85 are still coming in, and therefore are set forth on the basis of projections and anticipations. For the Seventh Five Year Plan, the current year, which is the first year of the Plan, and which has seen the completion of five months, April to July 1985, as these notes are being written, and the kind of forecasts for the full year on the basis of the record emerging from the first third of the year and the targets set for the year by the Plan, faces many limitations. These statistical lacks and uncertainties must be borne in mind when studying this review.

1.3. The main sources on which the review is based are the Quick estimates and the monthly statistics of CSO, on which the latest is volume 38 Number 3 dated March 1985, and in which the year 1985/86 is not dealt with, and the Economic Survey 1984-85, which, while statistically incomplete for that year, offers some hints and statements of prospects with regard to 1985-86. Similarly the Annual reports for 1984-85 of the ministries and departments of the union government, updated by the question and answer sessions in the

parliament at the budget and monsoon sessions, the RBI monthly Bulletins and the Annual report for July 1984 June 1985, some data released by the Planning Commission as it works on elaborating the Approach Paper into a Draft Seventh Plan - all these are used as sources.

1.4. One of the problems faced in the review is the varying time period covered by the 12 months period represented by the year 1984-85. The official timing is April - March, while the agricultural year is from October to September, with further variations for the sugar year, the edible oils year, the cotton year, the school and university year, and the RBI year. This makes the presentation of a uniform time period for agriculture, manufactures, infrastructures, savings and investment, foreign trade and the balance of payment and manpower development somewhat difficult, and introduces a further element of ambiguity in the quantities referred to. However, unless otherwise explicity stated, in this review the year refers to the time period April 1 to March 31.

2. An Apercu of the Economy

2.1. 1985-86, which is the focus at this mid year point of this review, marks the first year of the Seventh Five Year Plan, as the previous year, 1984-85, was the terminal year of the Sixth Five Year. While that year, 1984-85 recorded a 3.5 per cent overall growth of the national income of the economy and a per capita income growth of 1.5 per cent, 1985-86 expected to register a growth of the national income of 3 to 3.5 per cent (depending on the performance of the agricultural sector) and a per capita income growth of 1 to 1.5 per cent. The fiscal policy for 1985-86 contained many innovations which will affect the performance of the economy both during

the year and in the Plan period. By a series of tax concessions, the government gave up a considerable amount of revenue in the double hope that the liberalisation of the economy, which it continued and pushed further forward, (in my opinion a little hastily and without providing for the retention of one essential control on investments in the production of essential goods for the poor majority) would result in additional buoyancy in the collection of taxes, and that there will be greater tax compliance. The immediate result is that the First Annual Plan of the Seventh Plan for 1985-86 embodies one of the smallest increases in revenue from taxation and the budget, which has little resources left after meeting the growing non plan expenditures, and has shifted the responsibility for national development to the private sector. Price pressures which resulted in a rate of inflation of 7.4 per cent in 1984-85, are gathering further momentum because of the growing liquidity of the economy, accelerated by two large successive budget deficits and the enhanced market borrowings which attempt to cover the fall in tax resources, and which will result in a 10-11 per cent price rise in 1985-86. Agriculture in 1984-85 on the foodgrains side which almost repeated the good performance of the previous year, in 1985-86 could produce 155 million tonnes if there is a good monsoon, or 148-150 million tonnes if it is poor. The foodgrains stock is nearing 30 million tonnes and is a bit of a problem and embarrasment. Except for sugar cane, the other cash crops will do well in the 1985-86 season. It is the industrial growth of the economy which is worrying, being a poor 5.3 per cent in 1984-85, and likely to record a rather subdued 6 per cent in 1985-86, as the further liberalising measures of delicensing and decontrols will not have much effect this year, even on the non essential goods and services sector to which they are addressed. The detailed review of the various industrial sub sectors indicate the action needed

to revive and promote growth in steel, non ferrous metals, chemicals, cement, engineering and capital goods industries, edible oils and soda ash. The infrastructure industries of coal, railways, shipping did not perform too badly in 1984-85, the overall performance of electricity was good and that of crude and petroleum products an outstanding one, all of which will continue at about that level in 1985-86. Savings at 23.1 per cent and investments at 25 per cent of GNP in 1984-85 represent increases, which will continue into 1985-86. The foreign trade profile in 1984-85 was bad with a trade deficit of Rs.5188 crores, which will be repeated in 1985-86, mainly because of the stagnation in exports, reflecting poor domestic economic performance. Employment generation in the rural areas was not impressive in 1984-85 and is likely to be so in 1985-86. On Poverty, whose removal is the purpose of all the above activities, the study of the 38th round of NSS is awaited. Meanwhile the performance of IRDP and the land reform programme was unsatisfactory from the point of view of alleviating poverty.

3. Overall Growth of the Economy

3.1. The national income of the economy recorded in 1984-85 a growth of 3.5 per cent (and not 4 per cent as forecast in the union government's Economic Survey 1984-85) compared to the 7.6 per cent in 1983-84. The per capita growth in 1984-85 was 1.5 per cent, as against 5.2 per cent in 1983-84.[1] For the VI Plan, the five year average annual rate of growth of the National Income was 5.02 per cent, (the five year record being 7.7, 4.6, 1.7, 7.6 and 3.5) against the targeted 5.2 per cent, the average per capita income was 2.8 per cent (5.5, 2.4, -0.4, 5.6 and 1.5) against a per capita target of 3.28 per cent.[2]

3.2. This means that in terms of the target set for the VI Plan, both ghe growth of the National Income and the

rate of growth of per capita income are near the targets and to that extent represent a good performance. But both groups of growth rates are based on a low base, -5.1 over all and -7 per cent per capita in 1979-80, and for the Plan as a whole, on the impressive growth in one sector, agriculture, in particular foodgrains, and the somewhat rapid output of crude.

3.3. The trend rate of growth of national income in the Indian economy has been 3.6 per cent until the VI Plan. There are studies which divide this period from 1951-62 to 1983-84 in various ways to show differing results. In one study, that from 1952-53 to 1959-60 the growth rate is 3.73 per cent, from 1960-61 yo 67-68 is 3.75 per cent, from 1968-69 to 75-76 is 3.76 per cent, from 1976-77 to 1983-84 is 4.01 per cent so that "there is no evidence of decline in the growth rate of GDP but one can perceive even some slight improvement in the average rate estimated for each of the sub periods (though this is as yet too small to be statistically significant)".[3] Another similar study finds the compound rate of growth of GNP for the period 1961-66 to 1973-74 to be 3.31 per cent (GDP 3.32 per cent), for 1973-74 to 1983-84 to be 4.01 per cent (GDP 3.96), and makes the comment that "the acceleration (of growth) over the period 1961-62 - 1983-84 is statistically significant and the acceleration would have been sharper, were the GNP not under estimated in the official national accounts" and the "black" market and the unorganised sector kept outside of all national income estimates.[4]

3.4. The under estimation in National Accounts - in reporting by manufactures, and non reporting by the unorganised and the "black" sectors - must be conceded, but while this may be of significance for a particular year or in relation to

estimates of per capita for the upper income deciles, for the long term or trends such under estimations being uniform does not make a difference in the trend rate. The division of the 30 year period into different sub period does give different estimates which are slightly above the trend rate for the whole period, of 3.9 per cent. My own estimate is that if the Seventh Five Year Plan attains its target of 5 per cent, the trend rate for the 40 years would have broken the 4 per cent barrier and climbed to it or a little above it.

3.5. For 1985-86, the projection of the growth of the national income is 3 to 3.5 per cent, with per capita income ranging from 1 to 1.5 per cent. This is based, as well be seen later, on almost no growth of agriculture, coming on top of its 9.3 per cent growth in 1983-84 and 1 per cent in 1984-85, a sharp rise in construction from 2.7 per cent in 1984-85 to 9.0 per cent in 1985-86 (its weight in the NI index is 5.4), and in railway transport from 1.9 per cent in 1984-85 to 5 per cent in 1985-86. This 3 to 3.5 per cent is short of the annual average rate of 5 per cent provided in the Seventh Five Year Plan, but the 5 per cent target is on a rather high base and will therefore be difficult of attainment, unless manufactures breaks through and resumes a high rate of growth. At this point, some analysis of the Sixth and Seventh Plans is indicated.

4. Plan

4.1. The Sixth Plan ends with a public sector outlay, in current prices, approved at Rs. 1,09,115 crores (compared to the Rs. 97,500 crores provided in the Plan), with the actual expenditures at a slightly higher Rs. 1,09,949 crores.[5] Thus in monetary terms, the Sixth Plan over fulfilled the financial

target, but this target was in 1979-80 prices. In terms of 1979-80 prices, the real public sector outlay was Rs.72,000 crores, about a third being the shortfall. In physical terms, the Plan exceeded the food grains target of 150.33 million tonnes, the crude oil target 21.6 million tonnes, and the population target of 72 crores. In all other areas, the achievements were well below the targets set for the Plan. Particularly serous for the mass of the people was the serious shortfall in millets and the poor performance of pulses and oilseeds during the Plan. Another disturbing feature in the Sixth Plan was the weak response of the manufacturing sector to the growth in national income and agriculture. Not only were the linkages weak between the primary and secondary sector, the latter averaging 5.8 per cent against the target of 8 per cent, there was the even poorer performance of the manufacturing sector which averaged a little less than 5 per cent, despite not being constrained by infrastructural shortages in power, coal and transportation which were relatively adequate. This is not an occasion when a full fledged review of the pluses and minuses of the Sixth Plan is undertaken, as all the statistical material and attainments of the Plan period are not in. Further that is not the purpose of this review. The tasks left over for the Seventh Plan are in the manufacturing sector, the price situation, including price support policies, the resources shortage, the external trade relations and balance of payments, the under employment and poverty situation.

4.2. The Seventh Plan is in the final stages of elaboration. There are a number of issues that the Plan raises. First is the question of resources, that is, the means of financing the Rs.1,80,000 crores outlay of the public sector and the Rs.1,40,000 crores of the private sector. Both sectors are reported to be short of resources - the public sector by

Rs.39,000 crores as at July 1984, which was reduced to Rs.12,000 crores in March 1985, and the private sector by Rs.10,000 - Rs.12,000 crores. This complaint of the lack of resources is not convincing as far as the private sector is concerned, as seen in the run away nature of the stock markets in the last six months, when large amounts of resources are chasing equities, debentures and other stocks, which will be referred to later. As far the so called resource gap in the public sector, it is a somewhat serious situation, for it is leading to freezing expenditures in most parts of the public sector, including the key infrastructural areas of power, coal, railways and communications; in the public sector consolidation and replacement cum modernisation is taking the place of investment for capacity creation: one evidence of this is that the plan allocation in most sub-sectors is about 50 per cent of what the relevant working groups had recommended as the Seventh Plan allocation. A consequence of this situation is the somewhat surprising suggestion of the priva te sector being called upon to fulfil the plan objectives. (When the private sector is referred to, as in the Planning Commission's consultations with it, it is always the organised private sector). First the basic plan objectives of removal of poverty, generation of employment, development of backward areas etc. are outside the ambit of operations of the organised private sector. Second if the public sector infrastructure is stabilised at about present levels, the private sector which now complains of several constraints will be further handicapped. Third the various liberalisations in licensing and controls, which will be referred to later, will certainly lead to a spurt in the production of some industries, whose products will be in growing demand by the upper and middle classes, which will be at the cost of employment generating small, village and tiny industries which will be pushed to the wall.

4.2.1. The resource picture itself is not very clear. The public sector outlay was proposed in the Approach Paper at Rs.1,80,000 crores at 1984-85 prices.[6] Now in the finalisation of the Seventh Plan, the outlay is being established at 1985-86 prices, so that there is already a reduction of over 6 per cent in the outlay. On top of that, there is certainly no case for any further increase in commodity taxation which bears heavily on the poor and fuels inflation. But suggestions have been made[7] to the government and the Planning Commission to impose an agricultural income tax which will tax large and middle landlords, money lenders and rich farmers along lines of the KN Raj Committee recommendations[8] of the Agricultural holdings tax which at the time of its formulation in 1972 was estimated as raising Rs.150-250 crores in tax collection, which now with the increased contribution of agriculture to GNP should net Rs.3000 crores during the VII Plan: there are also the resources of the "Black" sector which are conservatively estimated at Rs.[10]36,784 crores,[9] (but which I place at around Rs.59,000 crores), to which should be added the results of the test audit conducted by comptroller and auditor general showing serious irregularities in the grant of export market development allowance, depreciation allowances, development rebates, allowance for the contribution to scientific research, income from capital gains, irregular set off of losses, incorrect valuation of property and the Public Accounts Committee' reference to serious delays in tax collection, which need to be attended to in order to increase resources.[11] There is also the public sector returns and the possibilities of reducing non development expenditures.

4.2.2. The union sector Seventh Plan outlay is increased to Rs.85,734 crores from Rs.47,250 crores in the VI Plan, and the states is increased from Rs.19,850 crores in the VI Plan

to Rs. 30,000 crores in the Seventh Plan. The union and the states are expected to mobilise Rs. 22,000 crores as the following table on the financing of the VII Plan shows:

Table-I

(Rs. crores)

I Union outlay	
Union resources	57,000
Market borrowing	18,000
Small savings	6,000
Additional resources mobilisation (ARM)	22,000
External Finance	17,000
Deficit Finance	13,500
	1,35,500
Union's Transfer to state	31,000
	1,02,500
II Union Territories Plan throug	
Own resources Rs. 1460, Additional Resource mobilisation (ARM), small savings and sale of plots	38,000
III States outlay	
States resources	28,500
Additional Resources Mobilisation (ARM)	22,500
Market borrowing	10,150
Small savings	12,000
	73,150
Total	1,79,450

Source: Memorandum

Planning Commission June 1985.

There is also the decision of the union government to take on the over drafts of the state governments which on January 28,1985 stood at Rs.1809 crores. The Fourth Pay Commission recommendations will probably involve an additional expenditure of Rs.100(crores on salaries plus the future DAs during the VII Plan, and there will also be atleast a 50 per cent increase in defence expenditures over the budgeted Rs.45,000 crores, as well as an additional expenditure on police. Whether these have been provided for over and above the Rs.180,000 crores set forth above is not known.

4.2.3. What is disturbing is that the means of financing the public sector outlay is regressive in the nature of the resource mobilisation effort involved. The additional resource mobilisation (ARM) by the states and union territories amounting to Rs.24,000 crores, in the absence of agriculture income taxation, will have to be through increase of sales taxes and excises, which bear heavily on the poor. There are two rather novel features of financing proposed for the Seventh Plan. One is the large deficit financing, which will be much larger than the Rs.13,500 crores indicated, and which represents a structural imbalance in our financing techniques, involving a decreasing proportion of tax and non tax revenues. Given the increased liquidity of the economy, which will be elaborated later under the prices section, the large deficit will fuel inflation, which will erode the limited purchasing power of the poor majority. The second feature is the resort to large market borrowing amounting to Rs.28,150 crores from internal sources plus a part of the Rs.17,000 crores of external loans for financing the plan. This financial instrument has also serious regressive consequences as it transfers resources in the way of interest payments and tax reliefs from the state

(which raises its major revenue from indirect taxation) to the rich, and, by reducing the credit available to the commercial sector and making it costlier, has inflationary consequences, with effects on income distribution.

4.3. Equally serious is the marginal role now assigned to the Planning Commission and the Plan in the matter of important policy decisions concerning licensing and delicensing, controls and decontrols, import and export policy, textiles policy which have direct effect on the Plan objectives of growth rates, employment generation, productivity, use of labour intensive techniques and direction of investments vis a vis production of luxury and non essential goods versus production of goods for mass consumption. The case is not that these policies should be a by product of a pure technical analysis and assessment; they are political decisions, and the membership of the Planning Commission with the Prime minister, Minister of Finance, Deputy Chairman and Minister of state is the policy authority, which should make these decisions, and reconcile the need for rather rigorous social control over investment, production and prices with the need for streamlining and reducing controls and opening up the economy to competition to reduce its high cost structure, rather than the kind oligopolistic play of forces which produces goods only for those with plentiful purchasing power. Presently it looks as if the major development policies are decided by the Finance Ministry and other ministries outside the Plan, and that the Plan has to be drawn up in light of these _fait accompli._ Fiscal policy, on other hand, is the primary responsibility of the Finance Ministry and this needs review next.

5. Fiscal policy and the financial year

5.1. The 1985-86 budget breaks new ground in several

ways. It offers rather explicitly a fiscal philosophy involving (a) the need for long term, a 3 to 5 year, fiscal plan as a measure of imparting some certainty to professionals, indust and trade: (b) the belief that tax compliance will increase as the rate of taxation is reduced: (c) the view that reduced personal taxation will increase savings: (d) an assumption that the private sector is, on the whole, more efficient and reliable than the public sector and will increase its output if taxes on it are reduced: (e) the assumption that inflationary forces built into the budget can be absorbed by the economy without deleterious consequences: and (f) that social justice even as somewhat sparsely expressed in preceding budgets over the past three decades in both the beneficiary oriented programmes and the controls to direct investments in employment generating mass consumption goods cha nnels is a luxury that a developing economy like India cannot afford, and must be given at best a lower place, in the interest of letting market forces determine the scope, nature and direction of production. Some parts of the philosophy are welcome and overdue, particularly those relating to avoiding annual adhoc changes in fiscal proposals, to simplifying the maze of procedures, and to cutting down the vast array of controls which feed on one another and breed delay and corruption.

5.2. The direct tax concessions which are based on the assumption that they will lead to people and firms paying their taxes more fully and honestly is open to question. On the one hand, the income tax w hich began to be reduced in 1975-76 from the 97.6 per cent marginal rate to 60 per cent in 1978-79 shows that tax receipts shot up in 1975-76 to Rs.1214 crores, (the extent to which this was due to the discipline and fear induced by the internal emergency needs study); on the other hand, tax receipts declined in the following year and recorded a

negative growth rate in that year and the two subsequent years despite the lower tax rates.[12] That this assumption rests on a rather shaky foundation is also seen in the somewhat harsh warning of the Finance minister at the end of July addressed to the well to do that if there was not better tax compliance, he would be forced to raise taxes again.

5.2.1. The tax concessions are tilted towards the well to do and non poor sectors of society through reducing the marginal rate of taxation from 61.9 per cent to 50 per cent, raising the exemptions level, introducing a new rate structure, and abolishing surcharges. The new exemption level lets off 1 million of the 4 million income tax assesses (who all belong to the non poor category), and the new rate structure reduces sharply the progressivity of income taxation, with those earning Rs.1 lakh and above receiving 3-4 times the relief received by those earning Rs.40,000 and below, as the following table shows:

Table-II

Income (Rs)	Tax relief as % of Income	Income (Rs)	Tax relief as % of Income
16,000	1.4	1,00,000	10.4
20,000	3.1	1,50,000	10.9
25,000	3.1	2,00,000	11.1
30,000	3.2	3,00,000	11.4
40,000	4.8	4,00,000	11.5
50,000	6.8	5,00,000	11.6

Source: Memorandum Explaining Finance Bill 1983 Table-3.

In our income tax legislation, there are as many 22 deductions ranging from contribution to the provident fund and LIC to long term capital gains and annuity deposits. There is a case for review of these accumulated concessions which have developed over 12 years, on the basis of (a) whether the activity being assisted through the deduction is high in the national priority list, (b) what is the necessary quantum of assistance to be provided, (c) whether the tax rate deduction is the best way of assisting the activity, (d) what is the cost to tax administration of the deduction and whether there should not be a time period for each concession, and (e) what is the effect of the deduction on the equity of the system. A simpler way might be to abolish all but few deductions like those for the handicapped, and lower the tax rates. The fiscal policy for the year has done the latter without attending to the former. Further with the raising of the exemption limit and reducing sharply the rates from 5 per cent to 2 per cent of the wealth tax on grounds of inflation, by abolishing the estate duty for which no explanation is given except that the cost of collecting it in relation to the amount collected is high, along with abolition of the compulsory deposit scheme and the 5 per cent reduction in corporation tax - all these move the fiscal system in a regressive direction, with the well to do sections paying less taxes.

5.3. While the fiscal policy favours the rich, the indirect taxes levied along with the increased railway fares and freight charges and increase in the prices of petroleum and its products and the enhanced excise on vegetable products, cement, printing and paper, (apart from raising the excise under residual item 68 being a lazy way of resource mobilisation) will send up the prices of essential commodities, and increase

the real tax burden on the poor. In this sense, the current fiscal policy continues the heavy reliance on commodity taxation and a falling share in the contribution from progressive direct taxation, which has become the fiscal tradition since planning began.

5.5. In the previous section on the Plan, the regressive fiscal effects of the new heavy reliance on market borrowing and the uncovered deficit have been dealt with. It may be noted that while the 1985-86 budget mobilises only Rs.500 crores by way (indirect) taxation, the railway budget raises nearly that amount at Rs.646 crores, while market borrowings are to raise Rs.5100 crores and the deficit part of the budget Rs.3348 crores. Thus in the current fiscal policy, the tax instrument seems to be marginalised, with declining resource mobilisation as reflected in the small increase in the union Plan (6 per cent) and the 3 per cent budget support given to the Annual Plan for 1985-86. In addition increased market borrowing means increased transfer of the savings of the community to finance the consumption expenditure of the government, and diversion from its productive investment.

5.5. One feature of the current fiscal scene to which the finance minister himself calls attention is the fast rising non development expenditure, which was just referred to as government's consumption expenditure. Just 3 such items in the 1985-86 budget, namely, defence, subsidies and interest payments use up 65 per cent of the total revenue receipts and constitute 75 per cent of the revenue expenditures. In fact as the minister points out the non development expenditure leaves less than 10 per cent of resources for development including the Annual Plan. There is need to look at all 3 items

carefully, defence to examine it item by item to cut the fat in it, subsidies to stop the increase and to reduce the 70 percent increase in the fertiliser subsidy from Rs.1080 crores in 1984-85 to Rs.1832 crores in 1985-86, when much more could be raised by a rise in fertiliser prices, with similar cut backs in the misused export subsidies, and some restraint to market borrowing, which can reduce interest payments.

5.6. This year's fiscal policy also enters into the general and specific industrial policy arrangements and regulations such as (a) increasing the asset limit for MRTP companies from Rs.20 crores to Rs.100 crores (the companies themselves had asked only for a doubling of the ceiling limit), (b) raising the investment ceiling for small scale undertakings from Rs.20 lakhs to Rs.35 lakhs and for ancillaries from Rs.25 to Rs.45 lakhs, and (c) delicensing 25 major industries ranging from special alloy and maleable iron castings and steel structurals to insulating boards and the like and printing, which are set forth in Annex I at the end of the review. As noted earlier, some of these changes in the manufacturing industrial sector have been long awaited and needed, and should help the private sector to grow faster, to lower its cost structure, and, with the help of the export import policy for 1985-86, to be analysed later, should update its technology and increase its productivity. But also, as earlier pointed, these much needed policy changes must go along with the increased vigilance and effective controls over the direction of investment and asset ownership, and the dispersion effects of growth, so that poverty is rapidly removed, greater employment generated and the inequalities in society reduced, as envisaged in the Approach Paper to the Seventh Plan. There is as yet no move in the latter direction, of establishing the necessary social control over investment and production.

5.7. As part of the fiscal policy initiative, the government during the year released the report on the country's 'Black' economy prepared by the National Institute of Public Finance and Policy, with a view to promoting a public discussion on the issues involved. While this debate is underway, what is needed is governmental action to counter the 'Black' Economy, and for that the punlic debate is peripheral. First the simplification of fiscal legislation and the tightening of its administration must be undertaken immediately. Second the various tax reductions referred to earlier should be accompanied by cutting ba ck innumerable tax deductions which are a source of unaccounted money. Third the separation of the financing of the country's political processes from 'black' sector should be effected immediately. Fourth punitive action against tax evaders and these holding unaccounted wealth should be speeded and these actions, reviewed by a standing committee, should be placed outside the purview of the judicial system. Finally, the one time remedy of demonetisation should be undertaken (as part of governmental decision and responsibility), with no resort to 'black' bonds which as the current share markets show, simply breed more 'black money. The public debate can and should concentrate on creating a climate of public opinion against all forms of 'black' money and wealth, in contrast to the present situation, when there is no social or moral opprobrium attached it. The causes and the quantum of 'black' money and wealth can go on being the subject of public debate, but the end purpose is to create public opinion which can back up the government in the five above actions it needs to take.

5.8. The year also witnessed the tabling of the Report to the government recommending the changing of the fiscal year

from the present April to March to January to December in order that (a) the budget may be presented in November when, unlike the present presentation in February, the results of the South West monsoon, on which the year's economic performance is so heavily dependent, are known, (b) the quantum of deficit financing for the year ahead becomes calculable, and (c) a more reliable and realistic statistical base for the system of National Accounts becomes possible. There is one further change suggested which should be made whether or not the present fiscal year is changed. Under the present system which requires the surrender to the finance ministry of all unspent balances at the end of the fiscal year, there is a rush to spend the maximum possible in the last month(s) and infact in the last week, very often not very wisely or carefully, involving a deal of waste. And when the new year begins more than the first quarter is spent in getting fresh sanctions for these lapsed funds, so that for the first 6 montns little or no work is done. Whether or not the fiscal year is changed, the recommendation should be accepted to set up a working group to (a) establish procedures for ending the disruption of the work at the beginning of each fiscal year (b) ensure through revised procedures that fear of funds lapsing does not lead to wasteful bunching of expenditures during the closing months, and (c) suggest means through which some kind of built-in advance sanction of funds without waiting for fresh authorisation and all that involves, in order to start or continue work without interruption at the beginning of the financial year. In addition it has been recommended that the Planning Commission under take an annual appraisal of the progress of implementation of sectoral plans together with an indication of the resources required for the major schemes in the core and priority sector in each of the Plan years, with this information

being made available to the ministry of finance to help it in setting the fiscal policy from year to year. These set of recommendations are independent of the time period to be covered by the fiscal year and should be acted upon without delay. The change in the year recommended by the committee requires a great deal of preparatory work on the calender of the budget, the timing of the finalisation of the annual Plan, the presentation and approval timing of the budget, procedures for funding major projects in the core and priority sectors specially, and the issue of sanctions for release of funds to union ministries and state governments on union sponsored schemes, and the changes in the tax system and the adjustment of tax rates for a 9 month period in the transitional first year. These are some of implications for the union government: there are others for the state governments, for the organised private corporate sector, for education and training establishments, for which a period of 1-2 years as preparation and transition is necessary. Whatever be the fiscal year, internal market borrowing has assumed an important place in current fiscal policy, so that a brief review of market borrowing is necessary.

6. Market Borrowing and Public debt

6.1. The country's internal public debt stands at Rs.58,494 crores on 1 April 1985. Within that limit, the governments' market borrowings may be examined. In 1984-85 the union government borrowed 6 times for a gross Rs.4591 crores and net borrowings of Rs.4100 crores which was 2.5 per cent higher than the 1983-84 borrowings. Gross borrowing by the state governments during 1984-85 was Rs.1301 crores and net borrowings Rs.772 crores. These borrowings as well those by local authorities are shown in the table below:

Table-III

Unit	Gross market borrowing 1983-84	Gross market borrowing 1984-85	Repayment 1983-84	Repayment 1984-85	Net market borrowings 1983-84	Net market borrowings 1984-85
1. Union	4345	4591	344	491	4001	4105
2. States	763	1301	175	529	588	772
3. Total union and states	5108	5892	519	1020	4589	4872
4. Institutions sponsored by union	1117	1309	35	92	1082	1217
5. Institutions sponsored by state & local authorities	871	1080	214	398	657	682
6. Total institutional Borrowing (4 + 5)	1988	2389	249	490	1739	1899
7. Aggregate market borrowing (3 + 6)	7096	8281	768	1510	6328	677

Source: RBI Annual Report 1984-85.

In this situation the RBI support to union government borrowing has been increasing from 1.6 per cent in 1978-79 to as much as 35.8 per cent in 1984-85 and which has direct effect on inflation via reserve money creation and money supply.[13]

6.2. The other borrowings are (a) National Rural Development bonds Rs.182.6 crores (7 years) and Rs.68 crores (3 years) on March 1985, (b) Social Security Certificates Rs.16.1 crores on January 85, (c) Capital Investment Bonds

Rs. 149.5 crores on March 85, (d) National Deposits Scheme Rs.30.8 crores on April 85. and (e) National Savings Certificates Rs.1790 crores in 1984-85.

6.3. Over drafts by state governments as on January 28 were Rs.1809 crores which are to be liquidated over the Seventh Plan period in agreed annual instalments, as referred to earlier, and had by May 11, 1985 declined to Rs.926.8 crores.

6.4. The steady increase in internal market borrowing by 6 times in gross terms from Rs.696 crores in 1974-75 to Rs.4591 crores in 1984-85, and 9 times in net terms from Rs.481 crores to Rs.4100 crores is due to the limited tax revenues reflected in the fiscal policy, and mounting non plan expenditure which results in deficits in current account. Increasingly market borrowing which financed only 6.4 per cent of development expenditures in 1975-76, in 1984-85 financed 16.2 per cent of that expenditure. Further the burden of interest payments also rises from 1 point for short term (from 5.25 per cent to 6.25 per cent) to 3.5 points for medium term securities (from 5 per cent to 8.5 per cent), and to 5 points for long term loans (from 5.5 per cent to 10.5 per cent). The largest part of government borrowings (72.4 per cent as at March 31 1984) is long term (over 10 years) and to that extent constitutes a heavy drain on the budget. Interest payments jumped from Rs.1228 crores in 1975-76 to Rs.5674 crores in 1984-85. And as most of the expenditures financed by loans are non or low revenue earning, the excess of government's interest payments over its own interest receipts rose from Rs.205 crores to Rs.1981 crores in that period.[14] This is part of the non plan non development problem which, as noted earlier, is also a means of transfer of government resources

to the rich. In any case in a country of mass poverty, this shifting from taxation to market borrowing is not an equitable means of raising resources as table 3.1 of the Economic Survey highlights.. Market borrowing is supplemented as far as the private sector is concerned by capital raised in the stock market to which attention is next turned.

7. Stock Market

7.1. The stock market deserves a place in this year's Mid Year review becuase of the role it is playing in raising capital resources and its extreme volatality since just before the presentation of the union Budget on March 16, 1985. The liberalised guidelines of September 17,1984 enabled the corporate sector to raise funds from the markets through debentures which increased from 52.6 per cent of all capital raised in 1981-84 to 63.7 per cent in 1982-83 on to 73.2 per cent in 1983-84. Debentures are all purpose capital gradually replacing term loans and equities. From December 1985 stock market activitiy began gathering force, sending share prices up, not because of buying by term lending institutions, but because of the new governments' promises. Already by December end, the private corporate sector had riased Rs.10,000 crores for the VII Plan, 3 months before its launching.

7.2. A qualitative change began in the market after the union government presented its budget to parliament, with share prices and equities rising sharply despite the increase in badla charges by 24 to 30 per cent. One week before the presentation of budget the market came out with a remarkablly accurate forecast that (a) the tax exemption limit will be raised, (b) compulsory deposits will go, (c) the maximum rates of personal taxation will be reduced, (d) wealth tax

will be lightened, (e) corporate tax will be reduced, (f) excise taxes will be reduced on a selective basis to boost demand, and (g) exports will be encouraged. As it turned out, the only tax reform not forecast was the scrapping of the estate duty.[15] It is not surprising that the budget which fulfilled all these expectations plus the changes in enlistment rules of closely held companies, the hike in the asset limit of MRTP companies, the 1/2 per cent reduction in the bank lending rate, the hike in the interest rate of debentures by Non FERA and non MRTP companies, and the delicensing of 25 industries resulted in the kind of feverish stock exchange activity involving run away equity prices and feverish speculation, which faced the market authorities with a possible payments crisis. Hence the markets were closed, business suspended, cuts made in trading in specified shares, settlement facilities in a number of cash shares were denied and margins increased. Nothing, however, could stop the soaring share prices, which alarmed the government, which through the controller of capital issues called an emergency meeting of the Presidents of stock exchanges, simply exposing the official limitation in dealing with the market, which has its own self regulating mechanism. If regulatory action was called for, it was against the feverish speculation under way.

7.3. The stock market had a free run from November 1984 to June 1985 when the Financial Express equity price index rose by 87 per cent for Bombay and 75 per cent all India. Between January 2 and June 7 the Bombay index rose by 51.5 per cent and the all India rose by 50 per cent, compared to the rise over two years, 1982-84, of 33 per cent for Bombay and 39.6 per cent for all India.[16] Even after June the acceleration kept up, in June the Bombay index rising by 18.6 per cent

against 18 per cent for all of 1984. Nothing seemed to stop this push, not highler margins, not a code of conduct, the only result being to make capital issues of both old companies and new ones buoyant. Towards early July, share prices seem to flatten out and brokers were complaining loudly about high margins and _badla_ charges. But again from mid July feverish activity has been resumed leading to continued rise in equity prices.

7.4. How these violent movements and the speculative activities in the stock market over the past 8 months will affect the confidence of the investor who on an average is expected to invest Rs.3000 crores to Rs.5000 crores per annum in the VII Plan compared to Rs.1000 crores to Rs.2000 crores per annum in the VI Plan and Rs.100 crores per annum in the IV & V Plans will need careful watching. Its relation to the rate of inflation during the year will be important, and it is about the state of prices that some attention is next needed.

8. Prices

8.1. 1984-85 recorded a 7.4 per cent price rise on a point to point basis, and 7.0 per cent on an average basis, while surprisingly consumer prices which usually show a lag effect, recorded for the first time in the Sixth Plan a lower rate at 5.0 per cent on a point to point basis, and 6.4 per cent on an average basis for the financial year. The Sixth Plan ended with a 8.4 per cent average annual rise in the whole sale prices index and a 9.3 per cent rise per annum in consumer prices as the following table shows:

Table:IV

Year	Point to point: Wholesale Price Index	Point to point: Consumer Price Index	Average basis: Wholesale Price Index	Average basis: Consumer Price Index
1980-81	16.7	12.6	18.2	11.4
1981-82	2.4	8.8	9.3	12.5
1982-83	6.6	9.8	2.6	7.8
1983-84	8.9	11.2	9.5	12.6
1984-85	7.4	5.0	7.0	6.4
Annual Average for VI Plan	8.4	9.5	9.3	10.1

Source: Office of Economic Advisor Ministry of Industry and Labour Bureau of Ministry of Labour.

8.2. There are price variations between the slack season every year which is between end of August to end of December and the busy season which starts in January and grows in March to August as the following table shows:

Table:V

Commodities	Weight	End March to End August	End August to End December	End December to End March	End March to End March
			1983-84		
All commodities	100	7.2	1.1	0.5	8.9
Primary articles	42	8.8	1.6	-1.1	9.4
Fuel, power, light and lubricants	8	1.2	0.5	3.3	5.1
Manufactured products	50	7.6	0.8	1.1	9.7
			1984-85		
All commodities		7.6	-2.1	2.1	7.4
Primary articles		9.8	-5.2	0.4	4.5
Fuel, power, light and lubricants		1.4	0.9	6.5	9.0
Manufactured products		7.4	-0.6	2.4	9.3

Source: Annual Report RBI 1984-85.

The 7.6 per cent rise in prices in the 1984 busy season, end August to end December, was caused by price rise in essentials, namely cereals, pulses, oil seeds, the sugar group and textiles. It may be noted that the rise in price of cereals which were about the highest in a busy season in face of high and mounting food grains stocks can be explained only in terms of excessive liquidity in the economy and faulty functioning of the public distribution system. I recall the government saying in parliament that it is puzzled by this phenomenon. The annual report of the Reserve Bank says it is difficult to explain this phenomen and leaves it at that. But the rise in the price of essentials hit the poor majority hard. Between end August to end December there was the seasonal decline in prices, the decline in sugar prices being due to larger releases of the free sale quota on the eve of the general elections. During 1984-85, steel prices were raised twice by 15 per cent on June 22, 1984 and 15 per cent in February 1985. (18.7 per cent of the price rise was due to the rise in administered prices in 1984-85, paddy (Rs.5 per quintal), wheat (Rs.5) barley (Rs.6), coarse grains (Rs.6), pulses (Rs.25.30), cotton (Rs.3.10), iron and steel (30 per cent), petroleum products (Rs.15), paper (Rs.1000), cement (Rs.400 a tonne).

8.3. The price rise in 1984-85 was also caused by the large supply of money, M_1, that is currency with the public, demand deposits and other deposits with the Reserve Bank which increased by 18.7 per cent or Rs.6198 crores compared to the smaller increase of 15.9 per cent or Rs.4531 crores in 1983-84. Broad money, M_3, which is M_1 plus time deposits with banks increased by 18 per cent or Rs.15,443 crores compared to the increase in 1983-84 of 17.1 per cent or Rs.13,031 crores.

Among the components of M_3, deposits with banks rose at 18.3 per cent or Rs.12,054 crores in 1984-85, while the rise in M_3 itself was due to increase in net bank credit to government of Rs.8410 crores compared to the previous year's Rs.753 crores, along side of the increase in bank credit to the commercial sector at Rs.9447 crores compared to Rs.8830 crores in 1983-84. Also in 1984-85 there was a sharp rise in net foreign exchange assets of Rs.1919 crores compared to the decline of Rs.104 crores in 1983-84. Thus reserve money expanded by Rs.2644 crores or 9.2 per cent which was about half of the increase of Rs.5713 crores or 24.7 per cent in 1983-84, due to a fall of Rs.890 crores in bank deposits with the Reserve Bank compared to a rise of Rs.2163 crores in 1983-84.[17] In this connection, a Reserve Bank study on Reserve Money points out that changes in reserve money are important guides to the behaviour of money supply, and that the lag in the impact of reserve money on M_1 and M_3 (and therefore on prices) are very short-about 3 months.[18]

8.4. In 1985-86 for the first 3 months, end of March 1985 to the end of June 1985, the price rise was 4.7 per cent compared to the rise of 3.7 per cent for these 3 months in 1984-85. The inflationary forces operating and that will operate in the current year, 1985-86, include the expansion of broad money M_3 at an annual average rate of 17-18 per cent in the past 3 years, with an overhang of liquidity seen in the rise in prices in the last two years even of cereals despite two good harvests and bulging foodgrain stocks, as noted earlier. To this should be added the large budget deficit and the unusual (and unproductive) level of market borrowing plus the large amount of credit that will be demanded and will have to be made available to the commercial sector if the

liberalisation of industrial licenses and imports lead to industrial revival and growth. The Reserve Bank is trying to prevent the economy's high liquidity result in a price spiral, through raising the Statutory Liquidity Ratio (SLR) first from 35 to 36 per cent by September 1, 1984 and to 37 by July 6 1985. SLR is an instrument both to allocate credit as between the public and private sectors and to minimise the expansionary impact of fiscal operations like deficit budgeting and deficit financing on reserve money growth. There was a modest reduction in lending rates from 1st April to reduce the cost to borrowers, and to increase banks' profitability, the interest rate of food credit was raised and the rate on cash balances with the RBI increased. The flexibility given to banks on deposits rate under 1 year misfired and so the Reserve Bank established once more the old schedule of interest rates.

8.5. Thus the plus and minuses of the price perspectives for 1985-86 are the efforts of RBI to rein in the liquidity of the economy, the prospects of a good monsoon and increased and improved supply management on the one hand, and the demand impact caused by fiscal deficits via reserve money, the money supply and lack of coordination between fiscal and monetary policy on the other, which, on the basis of a national income increase of 3 to 3.5 per cent and increase of money supply of 15 per cent will result in a price rise of 10 to 11 per cent during 1985-86.

8.6. At this point it is necessary to turn to the supply side and examine trends in the country's primary industry.

9. <u>Agriculture</u>

9.1. After the bumper 1983-84 food grains crop of 151.5 million tonnes, which was an impressive 16 per cent increase over the previous year's output, the most recent estimates for 1984-85 is that the food grains output will be 148.5 million tonnes to 150.5 million tonnes which is 1 to 3 million tonnes less than the 1983-84 output and 3 to 5 million
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tonnes less than the year's target, thus registering a -1 per cent decrease for the year. The kharif output is estimated at 85 to 87 million tonnes and rabi at 63.5 million tonnes, so that the short fall during the year is due to the kharif output. The rains were erratic and inadequate. Only 26 out of 35 metero-logical subdivisions received normal or excessive rainfall, compared to 32 subdivisions in 1983-84, while 7 received de-ficient rains (compared to the previous year's3)and two received scanty rains (nil in 1983-84). The deficiency in the monsoons caused great precipitation stress in the major rabi growing states of Haryana, Punjab, UP, Rajasthan, Gujarat and Bihar. The erratic rainfall affected severely the kharif coarse grain crop which declined to 30.5 to 31.5 million tonnes compared to the target of 33.5 million tonnes and the previous year's crop of 34 million tonnes. The government's reporting on the two year bumper foodgrains harvest is rightly somewhat euphoric. It calls this 'the second green revolution', and refers to the fact that while the first green revolution was due to the introduction of (foreign) Mexican wheat and IRRI dwarf rice, the second green revolution was the result of genetic HYV types developed in the R&D establishments of the country. It also points out that, whereas the first revolution drew increased outputs from Punjab, Haryana and Western UP, this time around 60.8 per cent of the increase comes from Bihar, Orissa, MP, UP and West Bengal.

9.2. In 1983-84 agricultural production increased by 13.6 per cent, with foodgrains increasing by 16 per cent and cash crops increasing by 4.9 per cent. For 1984-85, agricultural production growth is estimated at 1 per cent with foodgrains production at -0.7 to -1 per cent and cash crops recording 4.6 per cent growth. The comparative production of the two years is set forth in the table below:

Table:VI

Weight	Crop	Unit	1983-84	1984-85
33.98	Rice	million tonnes	59.77	59.5 -(60.5)
12.16	Wheat	"	49.15	46.0 -(46.50)
14.11	Coarse grains	"	34.00	30.0 -(30.5)
7.37	Pulses	"	12.6	12.5
10.96	Oil seeds	"	14.3	13.0
7.01	Sugar cane	"	177.02	175.0
3.01	Cotton	lakh bales	65.82	70
0.96	Jute & Mesta	"	74.15	78

Source: Annual Report: Department of Agriculture and Cooperation:

Though the 1984-85 agricultural and foodgrains production percentage increases are very small at 1 and -0.7 per cent, they represent for foodgrains a second bumper food crop year and also good production records for cotton, jute & mesta.

9.3. This very good record in foodgrains production, however, covers a number of serious issues:

9.3.1. (a) First there is continuing intercrop imbalance. Wheat is the major production leader closely followed in the two years by rice. The growth of the so called

coarse grains, which is the poor man's food, is decelerating disturbingly, and the oild seeds and pulses production are stagnating at low levels. Sugarcane production has joined this group of low production crops, resulting in the imports of edible oil on a massive scale and sugar.

9.3.2. (b) There is also continuing imbalance in inter state and intra state crop production. As far as inter state average annual rate of growth over the period 1967-68 to 1983-84, the table below records the data:

Table:VII

State	Coarse grains	Pulses	Food-grains	Oilseeds	Cotton	Sugar-cane
Andhra Pradesh	3.4	3.5	3.4	1.0	14.3	0.5
Assam	1.5	2.5	1.5	5.6	-3.2	3.4
Bihar	0.3	-3.0	0.1	0.5	-8.5	-2.3
Gujarat	3.2	8.0	3.5	5.3	0.3	9.8
Haryana	6.0	-6.3	3.9	3.6	4.4	-0.7
Karnataka	1.9	3.2	2.0	2.2	3.3	4.0
Kerala	0.1	-	0.1	-4.2	1.8	2.1
Madhya Pradesh	1.5	1.7	1.6	3.0	-1.3	0.6
Maharashtra	4.9	2.6	4.6	3.3	1.5	6.3
Orissa	0.2	6.9	1.0	7.6	-	3.8
Punjab	6.4	-5.9	6.0	-4.8	1.8	0.5
Rajasthan	2.8	1.6	2.6	5.9	7.0	6.6
Tamil Nadu	0.1	5.1	0.2	0.4	-1.1	3.1
Uttar Pradesh	3.9	-2.4	3.0	-1.2	-4.1	3.1
West Bengal	0.9	-4.1	0.8	9.3	-	-0.8
All India	2.8	0.2	2.5	2.2	2.4	3.1

Source: CMIE: Economic Outlook June 1985 Table-4.6.

The table shows that the major cereals production comes from just 6 states - Punjab, Haryana, Maharashtra, Uttar Pradesh, Gujarat and Andhra Pradesh, in that order - whose annual growth is well above the all India growth rate, whereas 7 states - Kerala, Tamil Nadu, Orissa, Bihar, West Bengal, Assam and Madhya Pradesh, in that order - are very low cereal producing states, with the first not averaging even one per cent over the 15 year period. It should also be noted that the very high growth rates in cereals recorded by 3 states - Punjab, Haryana and Uttar Pradesh - are at the cost of pulses, which record negative growth rates. This taken along with the information on the area under cereals and pulses over part of the time period covered in the table, namely for 1974-75 to 1978-79, shows the transfer of the area under pulses to the area under cereals.[20] There are similar interstate imbalances in the growth of oil seeds, cotton and sugarcane. As for intra state imbalances, they relate to the problems of the concentration of the irrigated area in certain districts, and the dry farming or drought prone areas, which are the other districts of each state, which will be dealt with later.

9.3.3. (c) A further problem is the rising input-output relations in the otherwise remarkable agriculture performance. The ministry's annual report gives details of increased input use in 1984-85 comprising (i) soil and water conservation measures over 6 million hectares, (ii) the restoration of 5 lakh hectares of fallow land, (iii) extension of HYV areas using 70 lakh quintals of quality seeds, (iv) increase of 38 lakh tonnes of fertilisers use during the first 6 months and (v) covering 20.90 lakh hectares under the plant protection scheme. Taking the Sixth Plan, the inputs increased by 3 per cent in net sown area, 7.5 per cent in net irrigated area,

pumpsets and tractors by 40 per cent, HYV area by 35 per cent, fertilisers consumption by 48.5 per cent and pesticides use by 35 per cent. In real terms, all agricultural inputs increased by 4.4 per cent per annum, while the Sixth Plan annual agricultural output growth is 2.4 per cent. Even for the bumper crop year 1984-85 when the output increased by 1 per cent on the high 1983-84 base, the inputs increased by 5 per cent. Thus the input-output ratio is both high and rising in agriculture. Despite this rising ratio, the wheat yield per hectare in India is 1851 kg against the world average of 2153 kg per hectare, and rice yield 2185 kg per hectare against the world average of 3127 kg. The increasing inputs have to be more optimally used.

9.3.4. (d) There is also the problem of rising food stocks which were around 1.2 million tonnes in the fifties, 2.6 million tonnes in sixties, rising to 10.2 million tonnes in the early seventies and 17 million tonnes in the late seventies. The latest position is, that despite the government permitting the free movement of foodgrains between surplus and deficit states, despite permitting wheat mills to buy wheat in the open market, despite allowing private traders to export wheat, rice procurement in 1984-85 increased to 9.6 million tonnes and wheat procurement at 9.3 million tonnes and in 1985-86 rabi at 10 million tonnes. As at the end of July, the foodgrains stocks with the government exceeded 29 million tonnes. This raises a number of issues.

9.3.4.1. First and simplest is the lack of storage capacities for this amount of foodgrains, the godown space owned by the Food Corporation of India being 8.8 million tonnes as at April 1985, so that atleast some 10 million tonnes are

stored in the open under the CAP system, with serious losses due to rains, pests and some stealing

9.3.4.2. Second the huge foodgrains procurement is every year, for the most part, from the same three states, Punjab, Haryana and Western Uttar Pradesh who between them accounted for 80 per cent of the procurement in 1984-85, the rice procurement coming from the summer rice crop of these 3 states, reflecting the inter state crop imbalances referred to earlier.

9.3.4.3. Third there is a serious immobilisation of large bank credit involved in holding these huge stocks and in their procurement and distribution, which increased from Rs.4122 crores in March 1984 to Rs.5827 crores in March 1985 and Rs.6800 crores in June 1985. The buffer stock is in danger of becoming an alibi for not countering the basic causes of agriculture production shortages and instabilities, such as serious drainage and irrigation problems which make the use of the new technology risky, lack of timely supply of water and power, poor testing of seeds, inadequate extension services, low product prices, short supply and/or inappropriate timing of credit that makes optimum application of inputs impossible, and ineffective land celings.

9.3.4.4. Fourth there is the rise in procurement prices of all the crops referred to earlier, which needs a review in terms of their inflationary effect and the mounting subsidies they involve for the Public Distribution System. Infact the question arises whether the alternative of maintaining a small stock of 5-6 million tonnes to meet emergencies only, and redeploying the major part of the Rs.7000 crores

now locked up in buffer stocking investment in irrigation, in dry farming technology, in improved HYV and plant protection, is not preferable as there will then be no wide fluctuations in crop outputs and no need for a large buffer stock.

9.3.4.5. Fifth the embarassing size of the foodgrains stock has led the government to permit export by private persons under OGL upto 1 million tonnes of wheat and itself to export to the USSR, Poland and Romania and Vietnam and to provide some relief to the famine stricken states of Africa. There is some question about even the commercial viability of our exporting wheat at the present level of wheat prices, on which the government far from making any profit, will have to expend its resources to subsidise the wheat exports so that they can sell at the low international price brought on by equally large surpluses in other producer countries and the heavy governmental subsidy of the domestic production and pricing of wheat by the United States.

9.3.4.6. Sixth, this raises the alternate use to which this large foodgrain stock should be put on which atleast 3 suggestions can be made and need to be given serious consideration. First the foodgrains supply should be used to increase the coverage of the Public Distribution System (PDS) whose stated aims are (i) to protect the vulnerable sections from rising cereal prices, (ii) to ensure a certain degree of food price stability for the poor consumers over time, and (iii) to reduce the uneven per capita availability of foodgrains. In practice the Public Distribution System, except in Kerala, has become a welfare measure for the urban population, which excerbates rural-urban inequality, as the PDS supply in compulsory levy areas are obtained at lower than the free market prices

at which prices the rural people have to buy their cereals, on top of the food subsidy, referred to earlier, which accrues to urban people as the PDS supplies are bought at the procurement prices and are sold at lower prices by the PDS. Even for the urban population, the government reports that the offtake from the PDS is falling from 16.2 million tonnes in 1983 to 13.4 million tonnes in 1984,[22] which means that PDS is not covering all the urban poor, which should be corrected. Second the large food stock should be used to increase the food for work type of programmes which will make food available to the poor masses. In this situation also where the per capita income consumption as an index of nutrition has been 450 grammes for 20 years, the aim should be to increase the low level of foodgrains consumption rather than exporting foodgrains. That also is the Reserve Bank's conclusion in its Annual Report for 1984-85, that given the coexistence of large food stocks and low per capita consumption, the policy should be to increase consumption of the poor majority.

9.4. Irrigation-major, medium and minor - at the end of the Sixth Plan covered about 33 per cent of the cultivated area, that is 59 million hectares out of 175 million hectares. This means that the major area under cultivation is unirrigated dry land farming. With regard to irrigation, there is a wasteful gap between the potential created and its actual utilisation in the case of major and medium irrigation of the order of 17 per cent. In the case of minor irrigation, the Economic Survey admits that it is assumed that there is 100 per cent utilisation, but that this assumption is not correct as there are minor irrigation potential which is unharnessed. Infact the 17 per cent under utilisation does not take account of "silt deposits, evaporation and seepage, losses of water due to

inadequate distribution channels to the farmers' fields and over flooding".[23] Studies show that canal irrigation has an inbuilt rigidity of water supply as the farmer has no control over its timing and has to adjust all his operations to it because he cannot regulate the river flow and because of poor maintenance of canals and outlets by the irrigation department, his control over the quality of water is minimal, and all this has a rather serious impact on the small farmer. This poor efficiency of irrigation limits the productivity of farming and its scale bias only reinforces existing economic inequalities, which means that simply increasing investment under irrigation will promote inequalities, which the Command Area Development tries to correct from the technical use point of view, but not from the socio economic point of view.[24] The other problem with regard to irrigation is the very heavy cost overruns in the programme. 156 irrigation projects originally costed at Rs.2125 crores now face a 562 per cent escalation to Rs.14,061 crores. On time overruns, there is no precise information except that the present schedule of 21 projects being completed in 1984-85, 7 in 1985-86, 3 each in 1986-87 and 1987-88 and 1 by 1988-89, 104 by the end of the VII Plan and 15 by the end of the VIII Plan will not be kept. In both cost escalation and time overruns, Kerala is at the top with 1314 per cent, followed by Andhra Pradesh 1052 per cent and Karnataka 928 per cent. There is need for some financial and project execution discipline in this large investment.

9.5. Dry land farming, which is quantitatively important as it covers a majority of small and marginal farmers, recorded some progress in 1984-85 through 4335 micro water sheds in which some 40 lakh hectares were brought under the dry land farming practices. In addition 109 lakh hectares were brought under the programme. All this is still a small

percentage of the 1220 lakh hectaters under dry land farming, which need water conservation and water shed development schemes, improvement of cropping systems, agro forestry as well as the spread of seed cum fertiliser drills, improved crop varieties and fertilisers application to make up to some extent for the heavy concentration of R & D and all inputs on the irrigated areas.

9.6. In the union budget for 1985-86, a crop insurance scheme has been approved starting from kharif 1985 covering rice, wheat, millet, pulses and oil seeds. The General Insurance Corporation (GIC) and the state governments will operate the scheme for all farmers who contract crop loans from cooperative, commercial and rural regional banks. The insurance coverage will be part of the crop loan and the sum insured will be 150 per cent of the crop loan sanctioned to the farmer. The scheme is really an expansion of the 1979-80 scheme started by GIC initially for 26 areas in Gujarat, 23 areas in West Bengal and 17 in Tamil Nadu, and extended, until on the eve of the 1985-86 budget presentation it covered 12 states, 681 areas and 60,439 farmers. It is important that the premium rates which have been computed on the basis of the past 10 years data be updated annually in order to avoid financial mishaps. The present scheme is founded on annual estimates of crop yields based on crop cuttings. Here there is a problem because there is an understandable demand by the farmers that the scheme be based on as small an area as possible such as development blocks in place of taluks. This will be more complex and more expensive as it will call for a large number (atleast 25) of crop cuttings experiments each year in each area. It is suggested to make the scheme realistic and low in administrative cost that the crop experiment area be unchanged, except there be one crop cutting

for rabi and one for kharif, which even so might not be necessary if the insurance is made compulsory for all farmers and part of the crop loan. Then the insurance scheme will be merged with this agricultural credit input to the farmer.

9.7. The afforestation programme, in a sense, is as much an imperative as increased crop production, becuase of the growing deforestation in the country, under which less than 23 per cent of the land (75 million hectares) is under forest instead of the required 110 million hectares and even of this 75 million hectares "not more than 40-50 per cent of this is under good forest cover".[25] This in part accounts for the serious departure from the normal rainfall in two out of the five years in the VI Plan, -11.6 per cent in 1982-83 and -9.4 per cent in 1984-85. The Department reports good progress in the forestry programme in 1984-85, with the states adopting the multi species approach in the planting programme. In the Sixth Plan, the government reports impressive developments under the union sponsored fuel wood plantation and social forestry schemes. In light of the serious handicaps and leakages identified in these essential programmes in field studies,[26] an evaluation of the programmes by the Programme Evaluation Organisation is necessary to set them on the right lines.

9.8. Animal husbandry development in 1984-85 is reported as including the production of 38 million tonnes of milk, the further development of the National Milk grid, and various schemes of cattle and buffalo development, poultry, sheep and piggery development. There are two comments on this good programme as reviewed by the LK Jha Committee,- first the diary development programmes draw milk from the farmers and country side to feed the urban dairies, with no plan to develop

milk consumption in the rural areas: second the cattle, sheep and piggery schemes should include the animal husbandry programmes under IRDP which, as will be seen later, suffers from lack of expert technical help and feed and fodder for the cattle made available to the poor beneficiaries. The record in 1984-85 and the Sixth Plan generally on inland fisheries shows the need to transfer to the small inland farmer/fisherman the results of the R&D in our fish biology laboratories, which is not being done. In marine fisheries, the number of large vessels for deep sea fishing is 73, which is totally inadequate in relation to our long shore line and the fishing areas in the Bay of Bengal, the Arabian sea and the Indian Ocean. Equally important is the need to pay more attention to improve the conditions of work and the fishing vessels of the small traditional fisherman which have remained the same since independence.

9.9. It is a little too early to forecast the volume and nature of agricultural production and foodgrain production in 1985-86. At this stage, as at the end of July, the record of the South West monsoon is patchy. Only 18 out of 35 meterological sub divisions have received normal or excessive rainfall, while 17 record deficient or scanty rains, covering 58 per cent of the gross cropped area. Gujarat, particularly Saurashtra, has remained rainless, East Rajasthan and Rayalaseema in Andhra Pradesh have had scanty rainfall, while Himachal Pradesh Jammu & Kashmir, West Rajasthan, West Madhya Pradesh, the Bihar plateau and Marathwada have had deficient rainfall. Karnataka has had failure of rains for the second year. The government has fixed for 1985-86 a foodgrain target of 89 million tonnes for kharif and 71 million tonnes for rabi, totalling 160 million tonnes, against the production of 148.5 to 150.5 million tonnes in 1984-85. If there are normal and good rains and preciptation, we could attain 155 million tonnes which would be a 3 per cent

growth, or if the monsoon is inadequate as in 1984-85, the production would be nearer 148-150 million tonnes, registering a decline of about -1 per cent.

9.10. Some features of the food grain crop in1984-85 may be noted. Wheat which is the second important foodgrain crop, contributes 30 per cent to total foodgrains and recorded in 1984-85 a 3 per cent growth. The wheat production for the year was a record 46 million tonnes exceeding the year's target of 45.6 million tonnes and the previous year's bumper crop of 45.2 million. This increase is at the cost of pulses, as noted earlier. The Prime Minister's announcement in March 1985 in Punjab that farmers in that state will be paid a bonus of Rs.5 per quintal for wheat sold to the government, over and above the price announced by the government in Parliament of Rs.152 per quintal for the 1984-85 crop, accounted in part for the massive procurement of around 4 million tonnes of wheat from Punjab during the rabi season. Rice is the largest contributor to the foodgrains production of the country at 40 per cent for 1984-85. Its increase to 59.5 to 60.5 million tonnes was below the target of 63.5 million tonnes and below the 1983-84 record of 59.8 million tonnes, registering a small 0.7 per cent decrease in 1984-85. The rice component in the buffer stock has risen to near 10 million tonnes. The coarse grains which contributes 15 per cent of the total foodgrain production and are farmed over 21 per cent of the cultivated area, have recorded a steady decline in the cultivated area. Jowar production which was 9 per cent of the total foodgrain production and 10 per cent of the cropped area and recorded an annual growth of 2.3 per cent upto 1965-66 declined to 1.9 per cent in per hectare yield per annum by 1983-84, bajra which contributed 4 per cent of the total foodgrains production and was 7 per cent

of the total cropped area and recorded a per hectare yield of 1.1 per cnr in 1965-66 rose to a per hectare yield of 1.6 per cent per annum by 1983-84, and ragi and other millets which contributed 4 per cent of total foodgrain production and the total cropped area and recorded an annual per hectare yield of 1.5 per cent in 1965-66 rose to 1.9 per cent per annum by 1983-84. The very steep decline in the total production and per hectare yield of jowar and the modest rise of bajra and ragi compared to the 2.4 per cent growth for foodgrains in general and the low output of 30.5 to 31.5 million tonnes for the year, and 34 million tonnes in the previous year is serious because they are the food of the poor majority. Their deceleration is due to the poor agro climatic and poor soil conditions in which they are grown, their poor resource base and above all because the price support policy has favoured wheat and rice. Finally pulses production during the VI Plan has averaged a low 12 million tonnes per annum, the five year record being 10.6 million tonnes, 11.5, 11.9, 12.6 and 12.5 million tonnes. This low production is due to pulses being grown as a dry land crop. Its increase is urgent because the countrywide diet survey of the National Nutrition Medical Bureau shows that diets of more than half the households surveyed in the different states of the country, even on the basis of the lowered norms adapted by the Bureau since 1974, are such that less than 15 per cent of children below 5 years of age are in a normal state of nutrition. Other studies show an equally poor state of protein malnutrition among adult women and mothers among the poor in rural areas. This means that price policies must be adjusted to divert some of the irrigated lands back to pulses, as the good programme of seed minikit of pulses by itself in dry areas has had only a marginal effect and has actually recorded a small decrease in yield in 1984-85. Pulses must be grown in irrigated areas.

9.11. A somewhat more detailed survey of the cash crops to which almost no references were made in the general section must now be undertaken.

9.11.1. Oil seeds. Oil seeds occupy an important place in the economy because on the one hand India is the fourth largest producer of oil seeds in the world, while, paradoxically on the other hand, it is also the single largest importer of oil seeds and edible oils in the world. To start with, the official (and popular) estimate of oil seeds production is 130 lakh tonnes in 1984-85 and about that also in 1983-84 from 8 major oil seeds. In addition these are some 100 minor oil seeds of which about 10 are exploited, but not included in official statistics as the table below shows:

Table: VIII:

Major Oil Seeds (lakh tonnes)

		1983-84	1984-85
1.	Groundnuts	72.8	75.0
2.	Seasamum	5.5	6.2
3.	Rapeseed & mustard	25.7	32.00
4.	Linseed	4.4	5.0
5.	Castor seed	4.1	4.5
6.	Safflower	4.7	5.0
7.	Niger seed	1.4	1.8
8.	Coconut copra	6.6	7.4
9.	Cotton seed	22.4	26.6
10.	Soya bean	5.8	8.0
11.	Sunflower	2.7	3.5

Some minor Oil Seeds (lakh tonnes)

		1978-79
1.	Mahura	4.9
2.	Neem	4.18
3.	Kusum	.9
4.	Karanja	1.11
5.	Sal	5.5
6.	Rubber seed	.3
7.	Mango	6.0
8.	Rice bran	8.5
9.	Maize & others	1.36

Source: CSD and OTA

The governments' special (oil seeds) project covers ground nut, rape seed, mustard seed, soya bean and sunflower and its Intensive Oilseeds Development Programme covers seasamum, niger and safflower. Even the prices fixed by the government for certified seeds are limited only to safflower, sunflower, linseed, groundnut, soya bean, castor, seasamum and rape/mustard. Thus the oil seeds supply in the country is about two thirds of what could be available if all sources including that of the minor oil seeds (whose statistics date back to 1978-79 which is another indication of their neglect), as set forth in the above table/are used. But even the production of major oil seeds suffers from a series of constraints which include (i) the rainfed marginal and sub marginal lands on which they are grown, mainly because the oil seed farmers believe mistakenly that oil seeds cultivation is more suitable for marginal lands, indicating the need for educating the farmers, (ii) pests and diseases which lead to production losses, (iii) inadequate supply of quality seeds, inputs and credit, despite the free distribution of fertilisers and minikits reported by the Department, (iv) poor crop management and (v) little marketing support. The Oil Seeds Plan developed by the Central Confederation of Oil Seeds Industry and Trade comprises a 10 per cent compound growth in oil seeds production from 128 lakh tonnes in 1983-84 to 206 lakh tonnes in 1988-89. This is somewhat unrealistic as the proposed increase of 78 lakh tonnes of oil seeds in the 5 year period is more than the total increase since the First Five Year Plan, and is about double the 2 per cent annual increase in the last decade and a half. The Plan is right in calling attention to the 90 per cent of oil seeds being grown on unirrigated, low productivity and low fertility marginal lands, and the lacks of HYV seeds, fertilisers, plant protection and post harvest technology. The

solution to the oil seeds situation is first to increase the investment in oil seeds production beyond the meagre Rs. 90 crores during the VI Plan, and adopt a strategy involving the farmers going in for (a) timely sowings and harvesting where delays will reduce yields sharply, along with proper crop rotation all of which involve no cost, (b) use of quality seeds and pest control in an optimum manner, (c) proper storage and handling of the crops from which 25 per cent of the production is lost, and (d) the regulated application of fertilisers and irrigation etc which are resource demanding. This, together with exploiting to the full the potential of untapped minor oil seeds, should change the oil seeds picture for the Seventh Plan.

9.11.2. Cotton: The government reports that the production of cotton in 1984-85 is expected to reach a record level of 78 lakhs bales, (which unfortunately the minister of Agriculture repeated in his statement on July 15,1985) as against 65.8 lakh bales in 1983-84.[27] Once more, as I have pointed out in the previous mid year reviews,[28] the estimate of cotton production is uncertain, and the official phrase "expected to" really refers to the changing estimates during the year of the cotton crop and opening stock. As late as June 1985 there was no firm estimate of the cotton crop, varying from the May 10 Cotton Advisory Board estimate of 87.25 lakh bales which was also the ICMF estimate, to the Cotton Development Council estimate of 91/92 lakh bales, and the trade estimate of 97 lakh bales. The **Cotton** Advisory Board estimates keep rising at every meeting: at its first meeting in October 1984 the crop was estimated at 79.80 lakh bales and opening stock at 12.29 lakh bales: at its second meeting in February 1982 its crop estimate was raised to 84.75 lakh bales and opening stock to 16 lakh bales: in May, the estimate

was 87.25 lakh bales, with the East India Cotton Association placing the opening stock at 21 lakh bales. One of the puzzles in the Cotton Advisory Board's estimate is that if the cotton availability for the year is computed at the Board's estimate plus imports minus exports and extra factory consumption, the industry has actually consumed more than that figure. Once more a plea is made for establishing a mechanism on the basis of which first the opening stock and next the year's production is more reliably established. A second problem has been the behaviour of cotton prices. They fell steeply to Rs.1200-Rs.2000 a candy in November-December because of supposedly plentiful supply in face of a relatively small carry over and non availability of imported viscose, which means that the price decline was due really to the upward revision of crop estimates and low mills offtake. There was at this time a demand from growers for export of cotton, which the government responded to by permitting the export of 1 lakh bales of long staple cotton. This sent prices up in March/April at the end of which prices began declining again by Rs.250-Rs.500 a candy, which again resulted in the demand for further export of the long staple variety, while the ICMF was urging import of short and medium staple variety to which the government has acceeded by allowing the import of 2 lakh bales. A third issue is the need to increase and stabilise cotton production in the country, which has the largest area in the world under cotton, but the average yield is a third of the world average of 170 kg per hectare. To increase production and improve productivity, there is need to change the cropping patterns, particularly in Maharastra and Andhra Pradesh, increase the irrigated area beyond the current 30 per cent and use modern methods of cultivation. Finally, the new textile policy to be discussed later should enable the mills to make

the necessary changes in their spindles, machinery and equipment, which will also promote the languishing textile machinery industry in the country, along with some change in the excise structure, in order that the long and extra long staple cotton fibres which are produced plentifully are used in the country and not exported. Both the Cotton Advisory Board and the Cotton Corporation of India state that for the cotton year, September 1984 to August 1985, the crop will be 90-96 lakh bales exceeding the VI Plan target of 92 lakh bales. Of this 45 lakh bales is long and extra long staple cotton. As upto May 1, 91 lakh bales have arrived on the market, by the end of the cotton year, August 1985, the crop is likely to be 95 lakh bales. This should lead to the yield being stabilised at 90-100 lakh bales for the Seventh Plan. Also the new textile policy which gives the Cotton Corporation of India a greater say in cotton procurement prices, export and import of cotton, should stabilise prices, and avoid the kind of wild swings witnessed during the year.

9.11.3. <u>Jute</u>: Jute production in 1984-85 was 73 lakh bales, the carry over stock was 9.50 lakh bales, and import (from Bangladesh) was 3 lakh bales, making for a total supply of 85.50 lakh bales against a total demand of 79 lakh bales. This means that the carry forward for 1985-86 will be 6.50 lakh bales which is adequate for one month. One of the problems in 1984-85 was the activity of the jute speculator/trader who sent the price up in December to Rs.1200 a quintal against the union government price of Rs.185 per quintal and the West Bengal government price of Rs.350. The only person who lost out in this speculative frenzy was the jute farmer who received from the Jute Corporation of India the last union government price. Since February 1985, the price has been falling due to (i) the fall in demand of jute following

the closure of 21 mills, (ii) the decline in demand for jute goods since November 1984 and (iii) the unloading of speculative stocks by traders as the 1985-86 crop was to come on the market and was expected to be much larger than the 73 lakh bales of 1984-85. The government is trying to revive the demand fof jute goods through the Food Corporation of India using jute bags. Thus jute production faces on the one hand rampant speculation in which traders and industrialists are involved, low prices as far as the jute farmer is concerned, and wildly fluctuating prices in the speculative jute market, and what is more serious, the loss of both internal and external markets for jute goods, because the jute mills follow a short sighted policy of charging high prices for jute goods, without modernisation which could lead to cost reduction. Jute goods are being replaced every where by cheaper synthetic substitutes. Because of the high price of the jute goods, jute goods exports have been reduced from 7.9 lakh tonnes in 1961-62 to 2.3 la kh tonnes in 1983-84, and even the domestic consumption of 10 lakh tonnes, boosted by FCI and the military use of jute goods, faces a serious down turn. The moral of the jute scene is that the pursuit of short sighted profit objectives by tradrs and mill owners compounded by the absence of a clear official policy on jute, jute prices and jute goods lead to increased poverty among jute farmers and sickness in the jute industry. The Seventh Plan target for jute is 106 lakh bales and for finished goods is 17.5 lakh tonnes, with domestic consumption of 13.5 lakh tonnes and exports of 4 lakh tonnes. If this is to be achieved, (a) R&D is needed to get out of the low 1200-1400 kg per hectare level production, (b) prices will have to be remunerative for the farmer and speculation stamped out, and (c) modernisation of the mills will have to be urgently taken in hand.

9.11.4. Sugarcane: The production of sugarcane in 1984-85 was 175 million tonnes, against the government expectation of 180 million tonnes. In the previous year 1983-84 it was only 2 million tonnes higher, so that 1984-85 production recorded -1.1 per cent growth. The low level of sugarcane production during the two years is attributed by the government to natural factors, like drought and floods. There are also reasons such as the very low support price fixed by the government, which is nowhere observed, and which is supposed to be related to the cost of production of the sugarcane grower in UP or Maharashtra or Tamil Nadu, which have each widely different cost structures, but is in reality based on the need to keep the levy price down. As an example of the chaos in the sugarcane price situation, it may be noted that on December 12, 1984, the union government announced a price of Rs.187 per quintal for the 1985-86 marketing season. Immediately the Haryana government announced a price of Rs.200 per quintal for its sugarcane growers, Maharashtra a price of Rs.195 per quintal, and Tamil Nadu a price of Rs.195 plus Rs.10 as transport subsidy which averaged Rs.217 per quintal in the state. In this situation, there is need to give effect to the recommendation of the Planning Commission's working group on sugar that this practice of state governments advising payment of higher cane prices than that recommended by the union government should be replaced by an integrated price formula that respects the current production supply situation, in place of the low union price, which through its differentials on cane recovery is supposed to meet the situation. It does not, and in place, because of its cumbersomeness and the political pressure of the mills, the price situation is in a state of chaos. For the Seventh Plan the target of sugarcane production is set at 220 million tonnes (to meet the sugar

production of 120 million tonnes). Here the question arises as to whether, on top of the 60 per cent increase of sugar consumption in the VI Plan, the VII Plan should provide for a further 50 per cent increase. Who are the consumers of this increased sugar production? Should not the market price of sugar be allowed to prevail both to regulate the rate of increase of sugar consumption and sugarcane production in the VII Plan?

9.12. Planatation crops

9.12.1. Tea production has been rising during the VI Plan at 570 million kg in 1980, 560 million in 1981, 561 million kg in 1982, 589 million kg in 1983, 644 million kg in 1984 and expected to be 660 million kg in 1985. But in relation to the VI Plan 1984-85 target of 705 million kg, there is a short fall, the annual output growth being 3.4 per cent, the annual demand growth being 6.5 per cent. Second, this imbalance between supply and demand is the basic reason for the sharp rise in tea prices, internationally and internally. Export in 1984 amounted to 220 million kg earning Rs.744.92 crores. Because of the rise in prices, the tea industry made a profit of Rs.900 crores in 1983 and a similar amount in 1984. To ensure that there is adequate supply of tea for domestic consumers, the government imposed in 1983 and again in 1984 a ban on export of CTC teas. The question raised is whether this kind of ban on exports is effective in attaining its objective of arresting the rise of domestic prices. Third of the 644 million kg of the 1984 production, 185 million kg are orthodox teas, of which 80 per cent is exported. (This includes Darjeeling tea which faces a problem, in that only 10 million kg of Darjeeling is produced annually, but in 1984 40 million kg of "Darjeeling tea" was marketed abroad, pointing to the need for

a logo which will be the hall mark of real Darjeeling tea). The balance of 459 million kg is CTC of which 85 per cent is domestically consumed. In place of banning CTC tea, the government has in 1985 fixed quarterly targets to prevent bunching of exports, which was later replaced by the system of Minimum Export Prices (MEP). With the fall in international prices from £2.80 per kg in January 1985 to £1.24 per kg in June, the MEPs have been lowered, but even so the industry has demanded its abolition because Indian tea prices are higher than interna tional prices. The government at the beginning of August announced its abolition. Fourth the union budget for 1985-86 permits tea companies to deduct upto 20 per cent of their profits for investment in approved projects in new machinery, fresh plantations and replantations. The amounts so deducted are to be deposited with NABARD which will sanction its use. This is the first time that the budget has promoted investment in the tea industry, which is appropriate in relation to the targets for the Seventh Plan and future years, which are set at 651 million kg total production, of which 416 million kg is for domestic consumption and 235 million kgs for exports for 1985, followed by 677 million kg, 433 million kg and 244 million kg for 1986, 702 million kgs, 450 million kgs and 252 million kgs for 1987, 734 million kg, 467 million kg and 267 million kg for 1988 and 760 million kg, 479 million kg and 281 million kg in 1989 to be followed by 806 million production in 1990, 937 million kg in 1995 and 1084 million kg in 2000. The VII Plan tea production targets have been worked out on the basis of district Plans by the tea industry and the Tea Board, calling for an investment of Rs.900 crores, of which one third is to be provided by the industry from its internal resources. From the point of view of its mode of formulation and infrastructure, the VII Plan targets can be realised.

9.12.2. Coffee: Unlike tea production, coffee production has been fluctuating and declining during the VI Plan. Using 1978-79 as base, coffee production in 1980-81 declined by 21 per cent, in 1981-82 increased by 28 per cent, in 1982-83 declined by 15 per cent, in 1983-84 declined by 31 per cent and in 1984-85 increased by 50 per cent to 1,70,000 tonnes. A first problem in the coffee area is the demand side of this 1.7 lakh tonnes production. The International Coffee Organisation has fixed India's exports to quota countries at 43,424 tonnes: the exports to non quota countries will be 50,000. Of the remaining 80,000 tonnes, domestic consumption is only 56,000 tonnes. The problem is the remaining 25,000 tonnes. First, India should continue to demand an increase of exports to quota countries beyond the 1.23 per cent of total world availability. Second, the non quota sales can be expanded a little, but not much beyond say 55,000 tonnes, as they involve sale at heavily discounted prices (for the USSR the discount is 34 per cent). Third and the real solution is to expand domestic consumption from the present 28 per cent of coffee production to something nearer 30-33 per cent, which will also relieve the pressure on tea consumption. The other issue is the Seventh Plan coffee target, which has been set at an annual growth rate of 5.5 per cent, the existing production to be increased through R&D and financial incentives, and the coffee cultivation to be extended to non traditional areas, (Andhra Pradesh, Nagaland, Mizoram, Manipur, Tripura etc), involving new planting in 30,000 hectares in such areas and 20,000 hectares in traditional areas. The total investment in the VII Plan will be Rs. 230 crores, of which Rs. 95 crores will be in non traditional areas. The annual production, exports and internal consumption targets for each year is as follows: for 1985-86 1.4 lakh tonnes, 85,000

tonnes and 55,000 tonnes, for 1986-87 1.52 lakh tonnes, 89,000 tonnes and 58,000 tonnes, for 1987-88, 1.59 lakh tonnes, 99,000 tonnes and 60,000 tonnes for 1988-89 1.66 lakh tonnes, 1.04 lakh tonnes and 62,000 tonnes and for 1989-90 1.72 lakh to tonnes, 1.09 tonnes and 63,500 tonnes. The coffee Board will over see the execution of the Plan and provide the needed extension and research support, including the setting up of regional research stations, coffee demonstration farms, seed farms as well as facilities for the training of coffee workers.

9.12.3. Rubber: Rubber production in 1984-85 was 1.82 lakh tonnes, while the demand for natural rubber was 2.25 lakh tonnes. There are several problems which the rubber scene presents. First the price of rubber is extremely volatile. In December 1984, the 20,000 tonnes increase in the 1984-85 production over 1983-84 and the so called recession in the tyre industry led to a steep fall in prices to below Rs.1400 a quintal and a demand by the growers for the government to build a buffer stock. In April and May 1985 rubber prices rose to Rs.3000 per tonne because by then rubber consumption expanded rapidly, and rubber users began pressing the government to implement the October 1984 decision to import 49,000 tonnes of rubber in 1985. This is opposed by the growers on the ground that production has gone up, due to late rains by 5000 tonnes. This kind of fight between rubber growers and rubber users over demand and supply estimates, prices and imports has become an annual ritual. There is one fact in 1984-85 continuing into 1985-86, and that is the exploding demand for tyres, caused by the boom in the production of 2 wheelers and automobiles of different makes and brands. In this situation, two decisions need to be made to ensure stability of supply and prices both to the small growers and users.

The supply of natural rubber will always be short of demand, and so instead of trying to regulate prices which was tried and given up in 1969, a system of buffer stocking of rubber must be tried after a careful study and assessment of (a) the optimum volume needed to be built up, (b) its cost-benefit relations, and (c) the timing of buying for and selling from the buffer. On this, there is the NCAER study on an integrated buffer stock and import policy for rubber in the 80s, which can be of some help. Second there is need to increase the supply of synthetic rubber - the supply of Skyrene Butadiene Rubber (SBR) produced by Synthetic Chemicals which reports an idle capacity of 40 per cent. An increase in the supply of industrial alcohol which means not treating it as a revenue earning item only, and some reduction in the customs duty of 122 per cent will help to increase the supply of synthetic rubber. The Seventh Plan projects an annual growth of 7.45 per cent of natural rubber, which means that in 1985-86 the output will be 196,000 tonnes, in 1986-87 209,000 tonnes, in 1987-88 225,000 tonnes, in 1988-89 244,000 tonnes, and in 1989-90 265,000 tonnes. This will require developing rubber plantations in 60,000 hectares with an investment of Rs.320 crores.

9.12.4. <u>Cardamom and cashew:</u> Cardamom production in 1984-85 more than doubled at 34,000 tonnes compared to 16,000 tonnes in 1983. The price of cardamom which was Rs.500 per kg in December 1984 and January 1985 slumped badly to Rs.125 in May. Even so the value of cardamom exports which was a mere Rs.5.44 crores in 1983-84 rose to Rs.57.60 crores in 1984-85. The target for cardamom exports for 1985-86 is Rs.63 crores and production 40,000 tonnes. There is need to increase productivity, the per hectare yield in India being one fifth of that of

Gautemala at 300 kg per hectare. This calls for intensified R&D, extension services and organised pest control, which the newly established Spices Board should undertake. Cashew production increased in 1984-85 marginally by 2,10,000 tonnes which was a 2.5 per cent increase over that of 1983-84. In 1984, exports, however, declined by 12.8 per cent at 31,162 tonnes due to the high price of the Indian product. The average unit export price in January 1985 was Rs.52.77 per kg., in December 1984 Rs.49.71, and in December 1983 Rs.38.85. The US, for instance, reduced its intake because of the higher price. Export earnings, however, rose by 26 per cent to Rs.174.21 crores.

It is now appropriate to turn to a review of the state of manufacturing industries in relation to the state of agriculture as outlined above.

10. Manufactures

10.1. In 1984-85, Industrial growth was a poor 5.3 per cent compared to the equally low 5.5 per cent in 1983-84, and against the target of 8 per cent. In both years, manufactures did very poorly, and along with mining and quarrying, was on a decelerating trend as the following table shows:

Table:IX (Base 1970=100)

Sector	Weight	1983-84	1984-85
Mining and quarrying	9.7	12	8
Manufacturing	81.1	4.5	3.9
Electricity	9.2	6.8	11.4
All Industries	100	5.5	5.3

Source: CSO

Further the analysis of the quarterly trends shows that industries in the first 2 quarters of 1984-85 did better than in those quarters of 1983-84. The deceleration in the last quarter of 1984-85 was particularly sharp at 3.4 per cent, when there was an all round decline in mining, manufacturing and even in electricity. The following table records the quarterly industrial growth rate performance in percentage terms:

Quarter	1983-84	1984-85
April-Jun	8.6	6.1
July-September	4.9	8.4
October-December	5.7	3.9
January-March	7.6	3.4

Source: Ministry of Industry

The deceleration in the last two quarters of 1984-85 is attributed to power cuts, shortage of raw materials, and the high price of fibres. The poor performance of manufactures in 1984-85, when the agricultural sector produced for the second year running a bumper crop, means that the organic linkages - backward and forward - between agriculture and manufactures are somewhat loose and in some sub sectors non existent. The low manufactures growth is attributed to (a) power constraints, (b) rising production costs, (c) technological backwardness and inadequate modernisation, and (d) all the many factors that add upto growing sickness in industry. In fairness, it should be pointed out that the statistics on industrial growth is partial and does not tell the whole story, because in addition to "the under estimation in the growth of output from manufacturing"[29] as referred to earlier, the 1970 base of

the index of Industrial production does not include or gives low weights to the new industries like crude, petro chemicals, electrronics, polyester filament yarn etc, and the small scale sector activities, where producing units have increased from 4.2 lakhs in 1973-74 to 11.5 lakhs in 1983-84, at a value increasing from Rs.7200 crores to Rs.41,620 crores,[30] are not taken into account.

10.2. Looking at the record of capacity creation and utilisation in the manufacturing sector, between 1970-1983, capacity in the manufacturing industries increased by 112.2 per cent or by a n average of 6.0 per cent per annum. During that period, production of manufactures incresed by 94 per cernt or 5.2 per cent per annum, which means during this 14 year period production expansion was well below capacity expansion. Further the rate of capacity use at 78 per cent in 1983 was lower than the rate of 85 per cent in 1970. During the VI Plan, the rates of industrial growth were 4.0 per cent in 1980-81 (on the low -1.4 base of 1979-80), 8.6 per cent in 1981-82, 3.9 per cent in 1982-83, 5.5 per cent in 1983-84 and 5.3 per cent in 1984-85, giving a compound annual rate of growth of 5.4 per cent for the Plan period against the Plan target rate of 8 per cent. The VI Plan's 3-4 per cent capacity growth rate inhibited the attainment of the 8 per cent target. The reasons given for low capacity use are the familiar ones of (a) power cuts, (b) coal shortage, (c) labour unrest, (d) lower demand for indigenous products due to the liberal import policy, (d) excess capacity created in relation to falling demand, (e) poor maintenance leading to mechanical breakdowns and (f) outdated technology. One estimate of the loss of production due to idle capacity is Rs.23,400 crores, if 100 per cent capacity use is taken as the norm, or Rs.12,760 crores if 90 per cent capacity use is taken as the norm.[31]

As regards the trends in factory size, studies of the period 1950-80 records a secular decline in factory size as measured by the number of industrial workers in all industry groups, a decline which goes against the traditional theory of the economies of scale and the relationship between large size and profitability. Secondly the correlation between size, capital intensity and profit rates changes during the period, led to higher profit rates for small units, which resulted in the rapid growth of small units, referred to earlier, and a decline in average size of medium firms due to the disappearance of the managing agency system, the government encouragement of small scale industry, and sub contracting being increasingly resorted to. This went along side of the size increases of the large and MRTP houses.[32]

10.3. The report of the Department refers to 1064 Letters of Intent issued in 1984 which makes for a total VI Plan of 5024 Letters of Intent, of which 53.3 per cent, that is, 2678 were for location in backward regions. Similarly in 1984, 905 Industrial Licenses were issued, totalling 3363 for the VI Plan, of which 32 per cent, that is, 1097, were for backward districts. This record of the issue of Letters of Intent which were translated in the last two years 1983 and 1984 more rapidly into Industrial Licenses, at a rate of more than double over that of the 3 previous years, together with the active stock market, is an indication of a growing, if not improved, investment climate in 1983-84 and 1984-85, which, however, has not translated itself into increased manufacturing growth. The Department also reports that the Industries (Development and Regulation) Act was amended in 1984-85 to confer specific power on the union government to define ancillary undertakings and where industrial

undertakings are already manufacturing items reserved for ancillary (or small) undertakings to call for their industrial license and endorse thereon the correct productive capacity of the unit. The utility of legislation for dealing with the abuse of the ancillary units provision by the large houses under benami arrangements needs to be questionned, as ancillarisation is a matter of industrial culture which can resist the pressure in government to promote technological advancement, even when it leads to further concentration of power.

10.4. The Department's report also refers to the increase in the number of foreign collaborations approved, from 273 in 1978 to 465 in 1984. In addition in 1984, 320 applications were received from Non Resident Indians (NRI) of which 183 were approved. These foreign collaborations and NRI agreements amounting 752 are supposed to be subject to rigorous scrutiny by the Foreign Investment Board which is required to approve only those which make a technological advance to the industrial development of the country. They came from 21 countries and NRIs for a total of Rs. 113 crores, which is not a large sum as the NRI s contributed 13 per cent of that amount. Whether they conform to the criteria of technological growth and avoid repetitive imports of the same or similar technology is not known. The 7 areas under which they are approved except for ceramics seem important, but about a third of the agreements are under a generic area, "other industries", which cover areas like cigarettes, alcohol and soft drinks, which make no contribution to the technological advance of the country.

10.5. The latest report of the Reserve Bank of India for 1984-85 states that sickness in the manufacturing industry is growing and is locking up 7 to 8 per cent of all bank credit. In reply to two questions in Parliament, the government stated that there were 83,597 sick industrial units in the country as on June 30 1984, with an outstanding credit of Rs.3,273 crores. The number of sick units, it was stated, was continually increasing from 22,366 in 1979, 24,544 in 1980, 26,758 in 1981, 60,173 in 1982 (the spurt in 1982 being due to the State Bank of India including in the small sick units those with protested bills/recalled accounts for the first time), and 80,110 in 1983.[33] The number of large sick units (with credit outstandings of Rs.1 crore and more) increased from 435 in June 1982 to 463 in June 1983 onto 502 in June 1984 with outstandings from them increasing from Rs.1729 crores to Rs.1913 crores and to Rs.2200 crores. The number of small sick units increased from 59735 in 1982, to 79647 in 1983 to 83095 in 1984 and their outstandings from Rs.394 crores to Rs.1073 crores in this period. The State Bank of India, which in 1982 changed the base of the classification of small sick units, describes 50,000 of them as non viable. The 1984-85 Economic Survey calls attention to the growing sickness in industry and ascribes it to managerial weakness, lack of modernisation and technological upgradation. The Finance minister in his budget presentation speaks of special legislation to deal with industrial sickness and the establishment of a Board for Industrial and Financial Reconstruction to deal with industrial sickness. Meanwhile the loan <u>melas</u> in 1984 were justified by a union minister on the ground that as the sick big and small enterprises were appropriating to themselves crores of Rupees, there was no harm in the poor farmers or landless labourers being given bank loans

on no security. A similar philosophy is to be found in the Departments' annual report which states: "Industrial sickness is an inevitable concomitant of the very process of industrialisation. It is a natural phenomenon in the process of industrial development"... It is not surprising that the only real remedy for the growth of this phenomenon, that is to close down and sell off all non viable units, and not to nationalise them or take over the managements of units made sick by private managements, is not being followed. Instead the report refers to extending the take over period of the managements of 39 industrial undertakings, the nationalisation of 17 undertakings by the union and state governments, and the government taking over the managements of 47 sick undertakings. This policy is no real protection to the workers concerned either as they can be redeployed in new undertakings which can be set up with the sale proceeds of the sick units. Those which are or can become viable should be put under strict control and nursed back to health.

10.6. The industrial and manufacturing perspectives for 1985-86 and the VII Plan may be briefly referred to. First if the Seventh Plan is to attain a 5 per cent economic growth rate, industry has to grow at 8 per cent and manufactures at 7 per cent. For 1985-86, mining and quarrying should grow at 6 per cent, as coal production will improve by 5 per cent and crude by 3 per cent: the manufacturing sector, in view of the various liberalising measures taken, which will be summarised below, should record to start with, a rise of 6.3 per cent. Electricity should record a growth of 8.5 per cent on the basis of its target of generating 170 billion units. All this will mean growth of 6-7 per cent in 1985-86 against the 7-8 per cent that is needed.

10.7. At this point the various liberalising measures announced over the past decade and speeded up in 1985-86 in order to accelerate industrial growth may be summarised. Before 1985-86, the following measures were announced and implemented: (i) 5 per cent of automatic growth was permitted to each unit upto achieving 25 per cent over its licensed capacity: (ii) the excess capacity that had been created by undertakings over their licensed capacity was legitimised: (iii) the exemption ceiling for licensing was increased from Rs.3 crores to Rs.5 crores: (iv) Special Appeal Board constituted to deal with Letters of Intent, Industrial Licenses, capital goods imports and foreign collaboration which has led to a doubling of approvals in each case: (v) grant of liberal technology and raw materials imports for exporters: (vi) shift in emphasis from import substitution to export promotion, from protection of indigenous manufactures to selective competition, from heavy industry to a mix of capital goods, intermediate and consumer goods industries: (vi) permission to 100 per cent export units to sell 25 per cent of their products in the domestic markets: (vii) delicensing of equipment for exploitation of alternate sources of energy: (viii) concessions to entrepreneurs to enter No industry districts and also to MRTP/FERA companies to enter them in non Appendix I areas: (ix) substantial reductions in excise and customs duties on a wide range of products in order to stimulate manufacturing production, particularly in consumer electronics, computers, refrigerators, household appliances, tyres and tubes etc: (x) policy changes for the rapid development of the electronics industry, particularly consumer electronics and computers: (xi) private sector permitted to enter the telecommunications equipment sector higherto reserved for the public sector. Along with the 1985-86 budget, the following

additional measures have been announced: (xii) the asset limit for MRTP companies has been raisd from Rs.25 crores to Rs.100 crores: (xiii) the qualifying limit of plant and machinery of Rs.20 lakhs for small scale industry was raised to Rs.35 lakhs and of Rs.25 lakhs for ancillary industry to Rs.45 lakhs: (xiv) 25 industries were delicensed: (xv) 12 bulk drugs were delicensed, followed by 82 essential drugs and formulations which were also delicensed: (xvi) exemption from sections 21 and 22 of the MRTP Act was granted to items related to electronics, computers, broadcasting euipment, control insttumentation, industrial and professional electronics and communications equipment and 27 additional industries: (xvii) to increase the scale of production and enable industries to adopt the product mix in accordance with demand, a system of broad branding has been announced for (a) machine tools, (b) 2 wheelers, (c) 4 wheel vehicles, (d) paper and pulp, (e) chemical, petro chemicals, pharmaceutical and fertiliser machinery industry, (f) electronics industry, (g) a broad range of engineering industries running from steel pipes and tubes and metallurgical machinery to offshore platforms and cranes, and (h) type writers: (xix) in telecommunications equipment, in the manufacture of switching and transmission equipment, a private undertaking is allowed to hold 40 per cent of the capital and the private sector is permitted to manufacture telephone instruments, PABXs teleprinters, data communication equipment etc: (xx) the 1985 import export policy reduces licensing and streamlines export procedures, decanalises 52 items and places 201 items under OGL along with the import pass book facility: and (xxi) the new textile policy which allows the mills sector to expand or contract in response to the market conditions.

10.7.1. From this brief summary, several issues stand out: First the liberalisation has a long history of over a decade in which three prior governments have been involved. The 1985-86 measures have carried them further forward, and perhaps somewhat rapidly. Second it is too early to assess the full effects of these measures, particularly those introduced in 1985-86. If the results of the earlier liberalisation measures on industrial growth which has not been noticeable are repeated in regard to the most recent package, the primary aim of modernising and expanding production might not come upto the levels aimed at in introducing these changes. There is thus a heavy responsibility on the private sector to demonstrate greater innovativeness in terms of emerging markets servicing them efficiently, ensuring higher productivity of assets and building internal resources for a corporate growth in a self sustaining way against a backdrop of high interest rates and inflationary pressure. Third these measures which are aimed at helping, promoting and moving the private sector forward are, however, undertaken along side of the public sector being held down to a policy of status quo and consolidation. The private sector is dependent for its growth in 1985-86 and in the Seventh Plan on the facilities, goods and services of the public sector, so that the halt in the latter will hamper the development of the private sector. Fourth the multinational corporations, which were restricted to high technology areas or exports and a 40 per cent foreign equity investment in other areas, have now a rather wide open field as more and more of them are involved in the design and execution of large projects in power, telecommunications, petroleum, fertilisers, gas pipe lines etc, on a turn key basis. Fifth under the higher MRTP ceiling, all groups of inter connected undertakings and single large undertakings will be deregistered if their capital is below Rs. 100 crores. Under this provision, it is reported

that 49 to 60 large houses will be able to take advantage of the enhanced limit.[34] In any case no legislation can cover all groups of inter connected undertakings and so there will be need for periodic surveys to keep track of the trends in economic concentration in the country. Finally the basic issue is not whether we are moving towards or away from socialism, for the decision to move away from socialism was made a long time ago - perhaps at the very moment when the term 'socialistic' path to development in India was invented. The basic issue is that these measures will serve to enhance production for the market, which comprises those of us with purchasing power. The social controls needed to direct investment and production and employment to meet the needs of the poor majority seem to be overlooked and may pose a serious socio economic obstacle for the future.

10.8. Public Sector: The public enterprises survey for 1983-84[35] reports on 214 enterprises with a capital investment of Rs.35,411 crores on 31 March 1984 (up from 5 enterprises with Rs.29 crores capital on March 1951), which made a net profit of Rs.245.67 crores, down from Rs.613.51 crores in 1982-83. The enterprises have done well in turnover which grew by 12.64 per cent in 1983-84; in 3 fuel areas, in 2 non ferrous areas, and in communications equipment, they account for 100 per cent of the country's production; 88 units used more than 75 per cent of capacity, with 20 per cent using less than 50 per cent; internal resources generated were Rs.3282.19 crores; Rs.6566 crores were contributed to the exchequer in tax, excise, customs and dividends; value added was Rs.10,043 crores; employment increased by 0.44 lakhs to 20.69 lakhs with an average per capita emolument of Rs.2165, with 19.0 per cent of scheduled caste workers and 8.8 per cent of scheduled tribes

workers being employed; enterprises are spread over 20 states and union territories ranging from Rs.5917.72 crores in Maharastra to Rs.14.14 crores in Goa; ancillary units increased by 9.70 per cent to 1412 in 1983-84; and Rs.1083 spent in building townships and 5,54,000 houses for workers. This is sound a record. It is the lack of profitability of the public sector enterprises which is disturbing. The total losses made by the loss making units in 1983-84 was Rs.1533.5 crores, and out of the total profits made by the profit making units of Rs.3017.71 crores, if the profits of the 3 oil enterprises of Rs.1949.65 crores is deducted, then the profits made by the others of Rs.1168.06 crores do not cover the losses of the public sector. It is the crude oil enterprises which are making the public sector produce the net profit picture in 1983-84, Second the net profit is 0.7 per cent of the capital employed while the gross profit was 11.94 per cent, (which is after the deferment of payment of interest on government loans for a number of enterprises). The government informed Parliament[36] in May 1985 that tentative estimates of the public enterprises for the year 1984-85 show that their net profits increased to Rs.956 crores from Rs.240 crores in the previous year, that their internal resource generation rose from Rs.3282 crores to Rs.4410 crores, that of the 13 sectoral groups 10 showed improved profits or lowered losses. But again over 80 per cent of the net profit in1984-85 was from the crude oil, steel and coal sectors, with steel making a profit because of the 32 per cent price increase in the year, through which it earned Rs.210 crores, while receiving Rs.41 crores as relief on interest payment to government, and the coal sector making a profit of Rs.7 crores due to the January 1984 price rise. The crude oil sector generated Rs.1137 crores net profits which is more than the Rs.956 crores for the whole public sector, which means th t the non pertoleum sector had

a net loss of Rs.181 crores. The 1984-85 net profit was 2.6 per cent of the capital employed. The Planning Commission points out that the budget can finance mainly non plan commitments, so that the plan has to be financed by ARM and the resources generated by the public sector. If this is so, the question is posed as to whether there has not to be a complete turn around of the public sector enterprises, involving (i) no political or bureaucratic interference in them, (ii) grant of autonomy to the managements to run each enterprise on sound business lines, (iii) a cut back in the unneeded and overblown work force (in Coal India about 50 per cent of the workforce including casuals is not needed for its mining function and so too in almost all public enterprises), and above all (iv) calling a halt for the Seventh Plan period to the so called social functions, so that the sector can make a net profit 4-5 per cent in each enterprise and a gross profit 18-20 per cent as originally planned in the Prime Minister's conference of 1968. A brief word is needed on the question that is being raised about the privatisation of public sector units. The preconditions for such privatisation are: (i) specificity of services or measurability of outcomes which will not apply to long gestation infrastructure or capital intensive units; (ii) multiplicity of producers to assure competition in place of the oligopolistic trends: (iii) freedom of entry in place of long term contracts now current in the private sector; (iv) possibility of the consumer linking benefit from the service to its cost which is becoming increasingly difficult in a sellers market; and (v) the private sector being less susceptible to fraud than the public sector, which is the opposite case here, and where equity and fairness should prevail over private gain or monopolistic power.

In the end, as Thatcherism demonstrates, privatisation does not depend on these theoretical considerations but on political will and decision making. One conclusion which stands out is that privatisation will not by itself ensure productive efficiency or lower cost. The negative/positive corollaries of this debate are: (i) the public sector should shed some of the private goods, like textiles, cement and a whole host of consumer items being produced by the public sectors in the states, (ii) common pool goods could be in the joint sector or leased to the private sector, (iii) sub contracting to private parties of some public services might be further developed, and above all, (iv) as equity is an import public sector norm, the system of dual pricing to benefit the poor should be adopted wherever feasible.

10.9. Private Sector: The RBI study of large public limited companies in the corporate sector showed the sales to assets ratio (which measures the efficiency with which assets are deployed) of 110.8 in 1975-76, 116.1 1976-77, 115.0 in 1979-80, 116.2 in 1980-81, 105.7 in 1982-83, and 101.8 in 1983-84.[37] This declining trend is confirmed by the Economic Times survey of 207 large industrial units in the private sector whose sales assets ratio fell from 103.5 in 1982-83 to 101.4 in 1983-84. This means that the private sector units also (like the public sector enterprises) are not using scarce capital optimally and that large blocks of capital are held up with increasing time and cost over runs, which is a serious under utilisation of capital. This ratio of course does not indicate the profitability of the units because net assets are the result of a historical process, net sales depend on the market structure, credit sales policy, and efficiency of sales so that profits are a residue of sale proceeds after cost deduction. Thus an improvement in the sales assets ratio

does not necessarily mean increased profitability. The ratio of sales to assets is high for trading and consumer goods companies and low for capital intensive ones, with shipping companies occupying the bottom. The top 5 and the bottom 5 of the companies with regard to their Net Sales (NS): Net Assets (NA) ratio are presented in the following table:

Table: XI

Top 5 companies according to NS/NA ratio			Bottom 5 companies according to NS/NA ratio		
Company	1982-83	1983-84	Company	1982-83	1983-84
Brittania	294.7	295.2	Lohia Machines	13.4	14.5
Bata	272.3	289.7	Chowgule steam ships	9.5	16.1
Brooke Bond	262.9	267.9	Damodar Bulk	25.1	16.7
Food specialities	243.0	247.1	Dampo steamship	26.0	17.4
Rallis	267.6	235.2	Ratnakar shipping	15.7	18.4

Source: Economic Times Research Bureau

Company finance studies released by RBI, IDBI and ICICI in February and March 1985, also show corporate profitability under strain. The RBI study, which covers 486 companies with a capital each of Rs. 1 crore and more, shows gross profits as per cent of net assets declining from 10.1 in 1982-83 to 8.9 in 1983-84 and as per cent of sales from 9.5 to 8.7. In the IDBI study which covers a large number of new and loss making units with long gestation periods, gross profits as per cent of net assets declined from 11.4 to 9.5, and as per cent of sales from 10.1 to 8.9. The ICICI report which covers relatively better off

units shows a similar drop in profitability. The one caveat to this common reference to gross profit is that it assumes that common accounting norms regarding the allocation of surplus are followed. For example, an increase in depreciation provision by 50 per cent, from 10 per cent to 15 per cent, while increasing depreciation provisions, involves payment of lower tax and could account for a fall in profitability. Also a company could increase its capitalising and interest charges by manipulating the date from which the company went on stream. Hence if gross profit is taken as profit before depreciation, interest and tax and if that is related to net assets as a percentage, then the RBI study shows a profitability of 13.6 in 1982-83 and 13 in 1983-84 and the IDBI study 14.3 and 13.5. Both show profitability declining but the rate or decline is rather small. In terms of gross and net profits and gross fixed capital investment, 1984 was a better year for the private sector than 1983, according to the analysis of the working of another group of 700 large companies. Against the gross profit of 3 per cent (Rs.2358 crores), net profit of -16 per cent (Rs.656 crores), gross fixed capital investment of Rs.2508 crores in 1983, in 1984 gross profit recorded 9 per cent (Rs.2584 crores), net profits 4 per cent (721 crores) and gross fixed capital investment Rs.2543 crores. It is estimated that for the VI Plan, the private corporate (non banking, non financial) sector had a total gross assets formation of Rs.45,400 crores, which includes gross capital formation of Rs.34000 crores at current prices. In 1979-80 prices, it amounted to Rs.23,500 crores, which was 12 per cent higher than the Sixth Plan target of gross capital investment of Rs.19,582 crores set for the non financial private corporate sector.[38] Against this general back ground, it is now possible to review briefly the performance and prospects of a few manufacturing industries.

10.10. Individual Industries

10.10.1. The capital goods industry which includes (i) non electrical machinery, (ii) electrical machinery and (iii) transport equipment increased by 7.4 per cent in 1984-85. The problems faced by the industry include (i) limited technological upgrading because of the small size of the middle and upper class markets at which import substitution is aimed, so that to make quick profits, technology is imported and the product is diversified: (ii) the continuous structural change in Indian industry with its effect on the capital goods industry; in 1985 at the end of the First Plan, consumer goods were 60 per cent of total manufacturing value added, with capital goods at 30 per cent and intermediates 10 per cent; by the end of the III Plan in 1966, capital goods at 54 per cent replaced consumers goods at 38 per cent and intermediates at 8 per cent; by the end of the IV Plan, there was parity at one third each between the 3 sectors and by the end of the VI Plan, capital and intermediate goods sectors advanced to 35 per cent each, leaving consumer goods at 30 per cent; and (iii) changes within the capital goods industry, whereby the predominance (70 per cent) of transport equipment in the sixties has given place to electrical and non electrical equipment (30 per cent each) in the seventies, heavy electricals occupying the major part of machine tools. In the Seventh Plan, the prospects include (a) the role of the state as the major investor in capital goods declining in relation to that of the domestic and foreign private sector, one result of which will be luxury consumer goods and intermediates outstripping capital goods production in the VII and VIII Plans, (b) the urgent need for the Indian capital goods industry which has become near self sufficient in the production of standard capital goods to acquire design capacity, (c) the further need to expand the domestic

market and update its technology which alone will expand the export market of Indian capital goods, and (d) the loosening of the backward and forward linkages in the machine tools, chemical equipment and heavy electricals sub sectors as a result of the liberalisation of imports in these areas.

10.10.2. Steel. The production of steel in 1984-85 was 7 million tonnes from integrated plants, including 5.41 million tonnes from the SAIL plants, plus 1.83 million tonnes from mini steel plants. Steel imports during the year were 0.70 million tonnes. SAIL reports a profit of Rs. 10 crores compared to the loss of Rs. 214.8 crores in 1983-84 after waiving of interest by the government. Is the profit of Rs. 10 crores in 1984-85 due to improved productivity? As sales and output increased by only 3 per cent compared to the previous year, it was not productivity but the two rises in administered prices of steel during the year, by 15 per cent in June 1984 and another 15 per per cent in February 1985, which produced the profits. These two rather high hikes in steel prices in 1984-85 came on top of the increase of Rs. 3000 per tonne between 1974 and 1983 which made Indian steel, which till February 1981 was the cheapest in the world to become the most expensive. The 1984-85 price rises have made all categories of steel 83 to 168 per cent more expensive than imported steel. The price rises are justified by SAIL supposedly on the principles followed by the Bureau of Industrial Costs and Prices (BICP). Apart from not being in a position to state which BICP principles are being referred to, BICP had advised that cost efficiency could be achieved through 90 per cent capacity use (in 1984-85 capacity use was 61.3 per cent, 5.41 million tonnes out of 8.8 million tonnes), that modernisation of the iron making process in Durgapur, IISCO and Rourkela should be effected, that technical

auditing should be undertaken in the other plants and only after all that is done, should there be a rise in price to meet the input cost, and give a return of 10 per cent on investment. The rise in prices, it must be concluded, is an index of the inefficiency of the sector. Further there is evidence of there being poor planning in steel. In 1982-83 the domestic production was supplemented by 1.3 million tonnes of imports, in 1983-84 huge stocks were built up inspite of 66 per cent capacity use, due perhaps to recession in engineering and automobiles industry and fall in the demand from power stations and railways. Despite this, in 1984-85 0.7 million tonnes were imported. The chaos continues in 1985-86 with NTPC importing 0.2 million tonnes, which is 80 per cent higher than in 1984-85, and 0.68 million tonnes ordered by the railways which is treble its imports in 1984-85. If the steel plan can forecast and regulate its production over a 2-3 year period, some of these imports could have been avoided, and certainly if there is fuller use of capacity, these imports could be lessened or avoided. For 1985-86 steel production is planned at 7.62 million tonnes from all integrated plants, plus 1.90 million tonnes from mini steel plants and 1.7 million tonnes are to be

imported. For the Seventh Plan, the ministry has set a 45 per cent increase in aggregate steel output from 9.19 million tonnes in 1984-85 to 13.02 million tonnes in 1989-90, which will be 0.82 million tonnes short of demand in that year, according to the working group on steel. Further even the 13.02 million tonnes output envisaged depends on SAIL plants which account for 80 per cent of output, being restructured so that Bhilai and Bokaro expansion to 4 million tonnes each, Vishakapatnam plant of 3.2 million tonnes, the modernisation of Rourkela and Durgapur, and the installing of captive power plants at Bokaro, Durgapur, Rourkela and Bhilai becoming a reality. The reduction of the overall steel allocation of Rs.13,141 crores to cover the above to Rs.8500 crores and within that to Rs.4500 crores for the SAIL plants places the VII Plan programmes for the steel sector in jeopardy. There is finally a rather important question - the capital output relation of SAIL plants works out to Rs.1,17,000 per tonne of steel. What should be the future steel policy in light of this daunting fact?

10.10.3 Non Ferrous A luminium production in 1984-85 was 2.77 lakh tonnes against a demand of 3.31 lakh tonnes. During the year 55,000 tonnes were imported. The installed capacity of aluminium plants is 3.62 lakh tonnes, so that if power was available 3.60 lakh tonnes could have been produced. During the year, the government permitted Hindustan Aluminium which is licensed to produce 12,000 tonnes of wire rods, 5000 tonnes of extrusions and 20,000 tonnes of rolled products to produce 20,000 tonnes of wire rods, 8500 tonnes of extrusions and 25,000 tonnes of rolled products on the ground of "not penalising a company for producing more than its licensed capacity". This makes no sense of the licensing system. Similarly while aluminium prices are fixed by government, the prices of the semi finished products are not controlled, leading to speculation and profits on which the government position is that this does not hurt small units, as Hindustan Aluminium and all private sector units are allowed to produce semi finished products 50 per cent above their license , while for the public sector there is no limit. This is some what specious as the public sector INDALCO's capacity of 117000 tonnes and 48,000 tonnes for semi finished products as well as BALCO's 100,000 tonnes and 82,000 tonnes are not fully used. On top, Hindustan Aluminium owes the Aluminium Regulation Accounts Rs22.75 crores on which it refuses to pay interest, with the government appearing powerless in this case, in reply to a question in Parliament.[39] Another problem faced by the industry is the constant changes in rules and regulations announced by the government, leading the Bombay Metal Exchange to demand, not a 3 year policy, (which seems to be the fashion these days) but a one year policy during which there will be no major changes. Soon after the import policy is announced, the Department issues a spate of notifications causing all round confusion. The Exchange also points out with the modernisation of Indian processing units there is no need for large scale imports of non ferrous semi manufactures. For 1985-86 production

is set at 2.80 lakh tonnes against the demand of 3.38 lakh tonnes. With the National Aluminium Corporation (NALCO) scheduled to go on stream in 1987, supply will be equal to demand at 4 lakh tonnes. The problem with NALCO is that it involves a heavy cost over run from the original Rs1242 crores to Rs2500 crores as at July 15, 1985 (with the possibility of further escalation), and a time over run of 3 to 4 years over the original schedule, with the result that NALCO's cost of production will be the highest per tonne of alumina in the world. Copper production in 1984-85 was 34,000 tonnes against a demand of 1.14 lakh tonnes. Copper production is planned to be raised to 60,000 tonnes by the end of the VII Plan. The problem here is that copper processors and consumers face considerable delays because MMTC does not import copper (which is about two and a half times the domestic production) in time. Zinc production in 1985-86 was 58,000 tonnes against the demand of 1.10 lakh tonnes, leading to zinc imports of 52,000 tonnes. Similarly lead production was 14,200 tonnes and imports 25,000 tonnes in 1984-85.

10.10.4 Electronics The electronics industry registered in 1984 a growth rate of 38.9 per cent with a total production of Rs1884 crores, including consumer electronics registering the highest growth of 77.9 per cent. For 1985-86 the production target is Rs3065 crores, with major expansions in communication and broadcasting equipment (112.7 per cent) and aero space and defence equipment (151.7 per cent). Between 1975 and 1980, the industry grew at 16.7 per cent in current prices and 113 per cent in constant prices. Since 1980, there has been a general liberalisation in licensing policy, promoting specific growth oriented programmes for computers and components, placing electronics industry under schedule IX of the IT Act, making investment in it attractive, along with reduction in import duties and liberalisation in import policy. The industry

is labour intensive, every Rs1 crore employs 300 persons, Rs2000 crores employs 8 lakhs, and has a low draft on electric power, 1 km employing 1.2 persons. It has a high value addition, with the cost of a finished transistor being 6-8 times the cost of the silicon chip which is its input, and with miniaturization, the transporting of electronic goods is easy and cheap. In the country, the new computer policy of November 19, aims at manufacturing computers at international prices, increasing computer availability either from domestic or imported sources, and encouraging the appropriate use of computers in the country. Till that date, the import duty on components and sub systems was 200 per cent plus excise and sales tax of 30 per cent, so that often refurbished, outdated and used equipment was passed off on manufacturers. On top, the Department added to delays, holding up documents sometimes upto 2 years, and causing confusion. With the development of integrated circuit technology abroad, manufacturers of small computers required so little work, blurring the distinction between a sub assembly and manufacture of a whole computer so that the stage was set for the development of "screw driver technology". The 100 licenses issued by the Department, under its liberal new policy, led to the setting up of assembly systems from wholly imported sub-systems. Though the licenses were for a phased manufacturing programme, no progress was made beyond the first phase, so that even those attempting design and production gave it up, and switched to assembly. Without a built in R&D base, no manufacture of computers is possible, and so the demand for the import of US computer related equipment was building but could not be effectuated because of US regulations. Status quo was therefore maintained till the end of 1984-85, imports allowed to some users, and import of large computers permitted after approval by an inter ministerial committee. While licenses - LIs and ILs - were liberally given, no license was required for manufacture of small and micro computers, with free import of know how and no

ceiling in capacity. This policy, which opens up the computer field, needs to spell out more specifically its objectives to avoid the making of wrong choices; it should take account of the fact that soft ware which must be developed in the country is capital intensive and not labour intensive (as the policy states), which in turn demands a large market for computers. This is where the computer policy ties in with the electronics policy which resulted towards the end of 1984-85 in the new electronics policy which was announced: (a) a production target of Rs10,000 crores set for 1989-90: (b) broad based licenses are to be issued for the whole product areas like entertainment electronics; (c) no licenses for this area is needed unless a company wants support from financial institutions: (d) FERA restrictions are removed for companies bringing in higher technology and exemption from MRTP regulations granted to companies manufacturing electronic components, computer sub systems etc: (e) the industrial policy resolution is to be amended to enable government to set up a new electronic switching equipment factory, with government contribution of 26 per cent, private sector contribution of 25 per cent and 49 per cent from the public. How far this policy will be successful depends on how the capital intensive part of the industry, which has till now been a public sector monopoly, attracts the participation of the private sector. The small scale sector can be an assembly point for the industry and consumer. The 1989-90 target means that the component industry must increase from the present Rs310 to Rs2000 crores in 1989-90. That is the reason why the component industry has been delicensed and some components which had been reserved for the small sector have been dereserved. There is a certain conflict between the Department which wants to reduce the import duty on components to 25 per cent by the end of the VII Plan and ELCINA which is opposed to this because of the effect on the domestic component producers,which it wants to see grow by 45 per cent. The Planning Commission's working group seems to be on ELCINA's side. The Annual Report of the Department does not

resolve this conflict, which it should, for the growth of the components sub sector.

10.10.5 Textiles In 1984-85 the mill sector produced 3432 million metres of cloth, compared to the previous year's 3536 million metres. Powerlooms and handlooms produced in 1984-85 8568 million metres compared to 8248 million metres in 1983-84. The industry faces a number of problems. First in the public and private sectors, two fifth of this organised sector's spinning capacity and half of its weaving capacity are sick due to structural and managerial deficiencies and fall in the demand for the fabric caused by the highly skewed income distribution. Instead of punishing inefficient and dishonest managements, the government has taken over the mills exploited and ruined by the managements, has increased spindlage without reference to yarn availability and so has pushed up yarn prices, and causes under utilisation of capacity. Second the powerloom sector has been allowed to expand without limit, faces yarn shortage, under utilisation of capacity, rise in costs at a lower rate which helps to undercut both mills and handlooms. Third the handloom sector despite its cost disadvantage is promoted and protected because of social reasons. Fourth the industry being dependent on fibres finds cotton in short supply, and the government unwilling to reduce excise and customs on man made fibre which can be used for cheap and blended fabrics for the common man. In this situation, the hike in customs on viscose fibre from 30 to 40 per cent from January 12, 1985 was welcomed by the fibre industry to offset dumping of the fibre by Japan. Also there was the clandestine import of high performance viscose fibre as regular fibre to attract the lower 30 per cent duty. This was a case where there was wasteful use of our limited foreign exchange. Fifth side by side with the closure of 50 mills because people could not buy cloth at the price, there was demand for cheap cloth, which has passed through a long and unsavoury history, being first made the responsibility of the mill sector, then passed

to NTC, and later shared between NTC and the handlooms. Though cotton is 45 to 50 per cent of the total cost of yarn and cloth, the fall in cotton prices during the year, referred to earlier was not reflected in cloth prices, which, on the contrary, have risen. Cotton yarn was in boom conditions with increased production, but declining mills stock and increasing cloth offtake. The average monthly consumption of cotton for the first 9 months of the cotton season, September 1984 to August 1985, was 7.05 lakh bales, so that mills were in a good position, as cotton prices declined by Rs1450 per candy, and a further Rs250-700 fall in February, though viscose prices rose sharply. Sixth the union budget for 1985-86 accepted the mills' complaint of unfair competition from the powerlooms and placed both on the same footing by levying the same duty at 13.20 per cent (down from 17.81 per cent). This was right, for, while mills have the advantage of better marketing, modernisation and economising, powerlooms have low labour and overhead costs. Another budgetary measure that will benefit both mills and powerlooms is the abolition of excise on grey cotton fabrics. Against this background, the new textile policy was announced for a 3 year period on June 6, 1985 comprising: (i) statement of objectives of the policy as producing cloth of acceptable quality at reasonable prices, (ii) through allowing the industry full fibre flexibility as between cotton and man made fibres, increasing the latter's production as well as imports by reducing fiscal levies on it, (iii) allowing mills freely to expand and contract, iv) by permitting liberal imports of textile machinery, v) treating powerlooms and mills on par; (vi) controlled cloth production being shifted, to the handloom sector. It is claimed that the new policy replaces the past policy which was based on compartments, namely mills, handlooms and powerlooms, by stages of production - spinning, weaving and processing: vii) potentially viable mills are to be given a rehabilitation package which is to be managed by a nodal agency: viii) a national advisory committee on modernisation is to be set up, and for this a concessional fund for modernisation is to be established. There are several aspects of the policy to be

welcomed, particularly the treatment of powerlooms on par with mills, the freedom given to non viable units to close, provided workers rights are protected, and the incentives of modernisation of the mills. But there are problems which include: i) the policy will not provide cloth to the poor "at affordable prices", ii) the shifting of the entire controlled cloth responsibility to the handlooms will involve a heavy subsidy and will not result in production with as good a finish, as economically, and as efficiently as the mill sector, there are in fact a number of unanswered questions flowing from this decision. Will the yarn availability to the handloom sector be adequate? At what price will the yarn be available to the handloom sector so that it can discharge its responsibility to double its controlled cloth production? What is the strategy to enable it to raise production from 700 million metres in 1985-86 to 1000 million metres in 1989-90? How will the subsidy to the sector be determined and paid? What is the strategy for marketing controlled cloth which is now confined to some urban areas only, so that it will extend to the rural and semi urban areas and become available to the poor, which it is not now? The mills and powerlooms can develop pure or blended, cotton or synthetic fabrics, particularly for the third of the districts of the country where income growth rates are above population growth rates. Will the 1000 million metres be adequate and available at "affordable prices" for the other two thirds of the districts? Until these questions are faced and answered, the handloom sector is in jeopardy: iii) the problems are not only structural but also managerial - as the many issues related to restructuring, rehabilitation and closure will pose many managerial problems, starting with the sick NTC sector: iv) a good deal of the policy depends on the manner of its implementation as for example how far the reduced fiscal levies on man made fibres are passed on to the consumers, how the statement in the policy - that it replaces the compartmentalised approach by stages of production approach - will be reconciled with VII Plan targets, which are

earmarked compartmentally, namely, 4500 million metres for the organised sector, 5400 million metres for powerlooms and 4600 million metres for handlooms: v) finally the freedom to use any man made fibre has to be reconciled with the interests and livelihood of over 2 million cotton growers and their dependents.

10.10.6 Textile machinery in 1984-85 was produced for Rs250 crores against the target of Rs355 crores and the 1983-84 production of Rs260 crores. The industry's capacity use was only 42 per cent. The future is not very good for the industry. The increase in customs duty on components from 81.5 per cent will make indigenous textile machines, whose import content is 50 per cent, costlier by 20-25 per cent. On the other hand, the reduction of duty on project imports from 65 per cent to 45 per cent will help textile mills purchase foreign machinery. Machines manufactured outside the country have been placed on OGL and so indigenous industry suffers losses. The result of all this is that the textile machinery industry of the country will be hard put to attain its 1985-86 target of Rs355 crores. The National Textile Corporation which is badly in need of modernisation and will be buying textile machinery has had an offer from the USSR of textile machines at less than half the international price, that is, at Rs4 lakhs inclusive of the 81.5 per cent import duty compared to the international price of Rs15 lakhs, along with after sales service. NTC which is pressed for resources may accept the USSR offer, much to the chagrin of the textile machine industry. The industry should, however, upgrade its technology and sell its products abroad, rather than exclusively in the crisis ridden domestic textile industry. The new textile policy which allows mills to update their equipment and expand their capacity may open a market within the country for the textile machinery industry.

10.10.7 <u>Chemical</u> Chemical and chemical products in 1984-85 recorded a growth rate of 8 per cent, with high growth established in caustic soda at 20 per cent, soap at 14 per cent, high and low density polythylene at 28 per cent, PVC resins at 12 per cent polystrene and man made fibres at 14 per cent, while rectified spirit acetatic cellulose, rayon filament, moulding powder and resins registered low or minus growth.[40] In the budget for 1985-86, 10 per cent basic customs duty on petroleum crude and increase of auxiliary duty by Rs200 per tonne impose an additional cost burden on the chemical industry. Following the budget proposals, IPCL, NOCIL and HOC have raised the prices of their products which are raw materials of the chemical industry. The price of naptha, for instance, which is one of the main raw materials of the chemicals industry has risen by Rs419 a tonne from Rs2792 to Rs3211, which means that its ultimate impact on the chemical industry will be Rs3000/- per tonne. The domestic industry is facing these cost rises when international petro chemical product prices, those of MEG, LDPE, HDPE and PVC are falling, mainly because Saudi Arabia with its cheap feed stock, economies of scale, and low interest rate has entered the market. There is thus a case for review of the taxes and price structure of the inputs of this important industrial sector. To start with, naphtha might be made available at the same price of Rs1723 a tonne as is being done for the fertilisers industry.

10.10.8 <u>Cement</u> production in 1984-85 was 30.1 million tonnes, being a 11.1 per cent increase over that of 1983-84. Since partial decontrol was introduced in February 1982, capacity in the cement industry increased from 28 million tonnes in 1981-82 to 44 million tonnes in 1984-85, during which time cement production increased from 21 million tonnes to 27 million tonnes and last year to 30.1 million tonnes. The problem faced by the industry is the increased costs of its inputs, the sale of 66.6 per cent of its production to the government at the

retention price which it states does not cover costs, and its sale of the remaining 33.4 per cent in the open market, which is not possible at high prices because of the buyers market. It therefore demands decontrol from the present partial control. The government responded to this situation by reducing the levy proportion from 66.6 to 65 per cent (from 50 to 45 per cent for new or sick units) and increased the retention price by Rs40 a tonne on 18 July 1984. Further on 8 June 1985, the levy quota was further reduced from 65 of the installed capacity to 60 per cent of actual production (from 45 to 40 per cent for new and sick units). The supply demand balance of 1984-85 was, however, upset in 1985-86, leading to a rise in the price of non levy cement from Rs10 to Rs12 a bag. This has led the government to import 3 lakh tonnes of cement to bring about a fall in price. There is a question as to whether there is really inadequate supply or whether, as the price rise has taken place in the Northern region, there is a problem of speedy and appropriate movement of cement. That there are adequate supplies of cement in the country is strengthened by the IDBI communication to the government that in view of the capacity already created and the narrowing of the supply demand gap in the country, it will not finance the creation of fresh capacity. The Planning Commission's working group estimates that by the end of the Seventh Plan, the capacity of the industry will be 62 million tonnes. The government has so far licensed 88 million tonnes and its forecast is that at the end of the VII Plan, production will be 50 million tonnes and demand 49 million tonnes. The two urgent actions needed are the continuous movement of cement from the producing centres in the South and the West to the North and North East, and monitoring the wasteful use of levy cement by government offices and bureaucrats. For 1985-86 the cement production target has been fixed at 35 to 36 million tonnes, which is attainable.

10.10.9 <u>Drugs and Pharmaceuticals</u> The production of drugs and formulations has been on a declining trend in the VI Plan at 20.4 per cent in 1981-82, 12.5 per cent in 1982-83, 9.2 per cent in 1983-84 and 6.2 per cent in 1984-85 for bulk drugs and similarly 19.2 per cent, 11.9 per cent, 10.0 per cent and 3.8 per cent respectively for formulations; with Rs377 crores of bulk drugs and Rs1877 crores of formulation in 1984-85. This decelerating trend led the government during the budget presentation on 16 March 1985 to delicense 12 bulk drugs and intermediaries, and later on 7 June 1985 to delicense 82 more bulk drugs and formulations. The problems with this industrial sector are deep rooted which despite 20 years of price control which the industry criticises as leading to losses, while expanding annually at 15 per cent, involving a per capita availability of drugs of Rs30 and a mere Rs10 in rural areas. The policy has been reviewed by several official committees, which point out that it has resulted in: i) the production of less essential but profit producing drugs, ii) spreading sickness in the industry, iii) the public sector firms being protected and highly subsidised, but inefficient, iv) foreign companies and even those conforming to FERA guidelines and MRTP houses being tightly controlled and discriminated against, v) the small scale sector suffering from duplicating, proliferating and low quality production; and vi) no resolution of the basic contradiction in the government's priority policy of passing on to the consumer the benefits of competition against providing incentives for further investment and innovation to the industry. In this connection, the NCAER survey of the industry points out: (a) the capacity use in the industry is poor, being above 80 per cent only for 24 per cent of the firms, and being below 40 per cent for 40 per cent in drugs and below 30 per cent in formulation: (b) the seriously obsolete technology in use (in antibiotics a 10 year lag); (c) the fragmentation of capacity and resulting uneconomic plant size: (d) low profitability as shown by RBI studies that gross profits fell from 16.4 per cent in the

60s to 10.4 per cent in the 70s, while the NCAER study shows the decline from 11.9 per cent to 7.8 per cent. Against this background, the 3 working groups set up by the government and the steering committee of the National Drugs and Pharmaceuticals Development Council make some specific recommendations, inter alia, that (a) price control be limited to 50-68 per cent of drugs now listed in category 1, 11, 111, that is, 95 priority drugs, and mark ups to be 65-125 per cent: b) all drugs outside the 95 to be free from price control: c) all licensing and production controls be dropped: and d) each unit to produce 20 per cent of priority drugs. The delicensing referred to above seems to be one without any provision for the production of priority drugs. The new drug policy is awaited, which should meet the demands of the above recommendations, and resolve the conflict between the multinationals and Indian drug manufacturers over prices and licensing as means of access to and control of the vast Indian market. The policy also should enforce the 1978 policy in relation to the firms, particularly multinationals, devoting a reasonable per centage of their gross profits to R & D, on which the cheap and easy availability of modern drugs is dependent: and the large firms and multinationals to offer quality control facilities to small units, for whom laboratories for testing their products are also essential.

10.10.10 Automobiles production is passing through a boom. The total production of all types of automobiles was 12.73 lakhs in 1984-85 (compared to 10.58 lakhs in 1983-84), passenger cars production increasing by 58.5 per cent to 74,200, jeeps by 8.6 per cent to 25,200, motor cycles by 13.4 per cent to 1,81,900, scooters by 15.1 per cent to 3,22,200, mopeds by 22.4 per cent to 4,13,900, three wheelers by 13.3 per cent to 43,500 and commercial vehicles by 9.5 per cent to 96,800. The industry is heading for massive excess capacity by the end of the Seventh Plan, with total approved capacity, including Industrial Licenses and Letters of Intent issued, for heavy,

medium and light, commercial vehicles, passenger cars, two and three wheelers, tractors and jeeps at 46.14 lakhs against the existing capacity of 13 to 14 lakhs. The largest difference between installed capacity and demand is in two wheelers where the total approved capacity is 37.36 lakhs, against the number of units licensed or with Letters of Intent at 41 and the actual production of 7.87 lakhs in 1983-84 and 9.37 lakhs in 1984-85. In the new policy, all types of 2 wheelers (scooters, motor cycles, and mopeds) are in one category. Similarly commercial vehciles and passenger cars are in one category. This categorisation will enable large firms to change the product mix in response to a change in demand. In passenger cars, the present approved capacity is 1,73,000 with the Planning Commission projecting the demand in 1989-90 at 1,40,000 compared to 74,200 produced in 1984-85. Further fixing capacity in these broad groups is of no use, unless foreign technology can be imported which is ruled out under the directive that any change in product mix be without a fresh foreign collaboration agreement. Neither scooter production being replaced by motorcycles nor heavy vehicles by passenger cars is possible without foreign technology, as the Hondas, Nissans, Suzikis, Fujiyamas, etc. show. Further while passenger car production lags behind demand (witness the long queue for Maruti and Fiat), this lag is not due to licensing, as in 1983 the licensed capacity was 1,73,000 and production 74,200. There are two questions which this policy raises. First why is private transport being given priority over public transport? Second what is the implication for crude and petrol consumption of this explosion in the automobiles area? Is this a priority use of our limited non renewable energy resources?

10.10.11 <u>Tractors</u> Tractor production was 77,800 in 1984-85 which was an 8 per cent increase from the production of 72,974 in 1983-84. Some of the features of tractor production are: First the demand for tractors has been on the rise from

3877 in 1961-62 to 37,349 in 1971-72 on to 81,472 in 1981-82. It was after the green revolution that there was a surge in demand, from 7703 in 1965-66 to 27,834 in 1968-69.[41] The increase in demand, however, has been limited to the six/seven states that contribute the major part of the foodgrains production, namely Punjab, Haryana, Uttar Pradesh, Andhra Pradesh, Gujarat and Maharashtra. Second, the demand for and the use of tractors is confined to large farmers in these 6/7 states. These farmers are also those who have access to irrigation facilities. Third from 1961-62 when tractor use began on a relatively large scale, for 15 years, till 1976-77 there were imports of tractors ranging between 3000 to 4000 a year. There was a short period of 4 years, 1968-69 to 1971-72 when due to a combination of large Indian factories stopping production and liberal credit from the World Bank to buy foreign tractors, tractor imports jumped to 12,397 in 1968-69 and 19,739 in 1971-72. But tractor imports were not only costly, there were also problems with after sales service which was non existent, and with non availability of spare parts of imported tractors. Hence the government banned tractor imports from February 1973 except for those that came under the World Bank scheme, and even those ceased in 1977-78, since when there have been no imports. Fourth there has been a problem with the pricing of tractors. The government tried price control from March 1967, through fixing statutory price ceiling for tractors of different horse power; but under the highly inflationary conditions of 1972-1974, there were so many price changes, as recommended by the Bureau of Industrial Costs & Prices, that the price control system was given up and a system of 'pragmatic surveillance' introduced, which has also been given up. There is a case for some price control because tractor production is undertaken by some 7 firms, unlike other agricultural machinery like diesel engines and electric motors where there are a large number of producers. A comparison of the prices of these items shows that the oligopolistic character of tractor production has led to high

prices. Finally a word on the future. The Table below gives an idea of the number of large farmers who will be demanding tractors.

Table XII

Size(hectares) of farms	Number of Holdings Million	% of Total	Operated Area Million hectares	% to total	Average (hectares)
Below 1 (marginal)	44.0	54.0	17.9	11.0	0.41
1 to 2 (small)	15.5	19.0	20.4	12.5	1.32
2 to 4 (semi medium)	11.4	14.0	32.3	19.8	2.83
4 to 10 (medium)	8.2	10.0	49.6	30.4	6.05
Above 10 (large)	2.4	3.0	42.8	26.3	17.83

Source: Agricultural Census 1973

From this summary presentation of farmers, the potential tractor demand is the last category, namely, 24 lakh large farmers plus the hiring of some 2 or 3 lakh tractors by medium farmers.[42] At present 7 lakh tractors are in use and the balance of some 20 lakh tractors is the future domestic demand, to which in addition, through modernisation and technological upgradation, the export market in this area might be explored.

10.10.12 Tyres production in 1984-85 increased by 9.8 per cent over the previous year at 1,02,42,675 tyres of all types, compared to 93,40,734 in 1983-84. In fact the VI Plan record of tyre production at 78.83 lakhs in 1980, 82.91 lakhs in 1981, 88.17 lakhs in 1982, 93.40 lakhs in 1983 and 102 lakhs in 1984 is on all fours with the boom in automobiles and tractor production referred to earlier. The major problem in the tyre industry has been the problem of prices. In 1984 and 1985, there has been a rise of 19 per cent in tyres prices, 9.5 per cent in May 1985 and 9.5 per cent in January 1984. This has been objected to by tyre dealers, truck operators, state transport undertakings, automobiles manufacturers and the government which asked the industry to "roll back the increase in prices".

The industry points out that there was no increase in tyre prices over 2 years - September 1981 to January 1984, when its raw materials rose in prices by 17 per cent and power charges, rail freight, sales tax increases amounted to 25 per cent. On the other side, among the 15 units which comprise the tyre producers, with 4 among them being responsible for 70 per cent of output, there has been since 1978 collusion in the price increases, which resulted in a MRTP enquiry and the resulting agreement that there will be no future concert in price fixing. The only real limitation on the oligopolies fixing prices is the rapid technological changes in the re-treading system, and especially the cold pressured retreading of tyres, which is part substitute for new tyres and part postponement of the purchase of tyres. The long term problem is that the high installed capacity of the 15 firms which are merging and increasing the points of concentration, makes licensing of new units difficult and even unnecessary, so that the price situation cannot be brought under control by increased competition.

10.10.13 <u>Engineering and Foundry</u> In 1984-85 <u>Engineering industries</u> production increased by 4.5 per cent, of which capital goods, as noted earlier, recorded a growth of 5.8 per cent. The engineering sector was able in 1984-85 to take advantage of the improved supply of steel, non ferrous metals, and other critical raw materials due to liberal imports and inputs. Also following the implementation of schemes by the State Electricity Boards and NTPC and the progress in the work of the Rural Electrification Corporation, the electrical machinery group moved forward. Transport equipment also expanded because of the boom in commercial vehicles, passenger cars, three wheelers, scooters, mopeds and motor cycles. The problem in the engineering industry is that its exports are decelerating at Rs1300 crores against the target of Rs1500 crores

in 1984-85, and at an actual of Rs1170 crores in 1983-84. Even this apparent 11 per cent growth in 1984-85 was to the extent of some 40 per cent due to the surge in the value of the US dollar. This poor performance is blamed on the usual factors recited by government and the industry, namely, global recession, shrinking West Asian markets, payment problems in Africa, growing counter trade, and increasing protectionism in the West.[43] No where in this litany of woes set forth in the Economic Survey is there a reference to the real cause for the poor performance on the export of engineering industry, namely, its use of outdated technology, its high production cost and the absence of a real desire to export, despite liberal capital goods imports, supply of inputs at international prices and a high cash compensatory support. In fact in 1983-84, to export engineering goods of Rs1170 crores, imports of capital goods and raw materials for that industry amounted to Rs4408 crores. Export earning of engineering goods increased three fold between 1974 to 1984, whereas the foreign exchange outgo on the imports needed by engineering goods increased 4 fold. Instead of exports being developed to pay for imports, in this country, exports stimulate the increase and expansion of imports. The production of the foundry industry in 1984-85 was 90,000 tonnes, against an installed capacity of 2 lakh tonnes. This poor capacity use in the industry is due to (a) proliferation of units without planning and relating capacity creation to demand, (b) technological obsolescence, resulting in high rates of rejection and material waste, (c) power constraints and (d) poor management. The industry needs to grow in the size of its units, upgrade its technology, and turn out the new products which the fast changing industrial scene demands.

10.10.14 The Edible oils scene continues to present a worrisome and puzzling picture. First the imports of edible oil in 1984-85 were Rs1286 crores which was the fourth highest import item (after crude oil, machinery, and fertilisers), forming

7 per cent of imports, and 52 per cent over the 1983-84 imports, and projected at Rs1000 crores for 1985-86. Second the indigenous availability of edible oil was a record in the November 1983 - October 1984 season, when we also went in for this record of 18 lakh tonnes imports. Third the Vanaspati industry is compelled to use 35 per cent of imported oil at the commercial rate of Rs13000 a tonne in order that it may qualify for a further 60 per cent at the concessional rate of Rs9500 a tonne. It is for the residual 5 per cent that the Vanaspati industry is allowed to use indigenous oil. There are several questions that must be posed again with regard to this arrangement. First Vanaspati is consumed by the rich and middle classes of society and why they should receive this favoured treatment which is not available to other oils - mustard, gingelly, coconut etc,- consumed by the poor masses, which results in worsening the already skewed expenditure pattern of society, needs to be faced and answered. One reason given by the government is that this supply of imported oil at low concessional prices is part of an informal understanding to keep Vanaspati prices low. Apart from the argument from equity just mentioned, the history of vanaspati prices during the past 5 years shows that this hope of the government is not being realised. The reduction in January 1985 of the allocation of imported oil to the vanaspati industry from 95 per cent to 85 per cent with the supply of the Rs13000 a tonne reduced from 35 per cent to 25 per cent is welcome though belated, but the continuing supply of 60 per cent at the concessional rate is not justified, when there is a plentiful supply of non traditional edible oils available at much cheaper rates, as in the case of soyabean oil, sunflower oil, rice bran oil. The prices of these oils are being depressed. This is one case where controls can be thrown away, and the industry be permitted freely to use indigenous solvent extraction oils. Fourth, the soya bean processing industry which has been developing and which is needed in the country, is facing a crisis as most units are closed in a year of record crops and record exports.

The soya bean extraction industry's capacity was increased to 20 lakh tonnes in expectation of a big break through which could have come through, if the vanaspati industry was free to purchase its own oils. Then 65-70 per cent of the capacity could have been used. Fifth from March 1, the supply of imported oil to the vanaspati industry at the commercial rate at Rs13,000 a tonne was suspended which means that the obligation to use 35 per cent of imported oil at that rate reduced to 25 in January and 15 per cent in February was in March abolished, which was good, first because it saves scarce foreign exchange, and second it enables use of indigenous oil. Now the remaining 60 per cent supplied at concessional rates should be phased out. Already the salutary effect of this change for the use of 10 per cent instead of 5 per cent of solvent mustard/ rape seed oil, was to send up the price of indigenous oils from Rs1000 to Rs1200 a tonne which is still far away from the Rs13,000 paid as the commercial rate. Finally if the government wants to increase domestic production of oil seeds - edible oils, it should stop the supply of imported oils to the vanaspati industry, which can and should use indigenous solvent extracted oils and limit imports only to meet public distribution needs. This should go along side with diverting the export of oil and deoiled meal to the domestic market as their export prices are rapidly declining.

10.10.15 <u>Sugar</u> In the 1983-84 sugar year, 59 lakh tonnes ofsugar was produced. In 1984-85 production is 60 lakh tonnes, and with opening stocks at 25 lakh tonnes, total availability will be 85 lakh tonnes. Consumption is 84 lakh tonnes, and with imports of 10 lakh tonnes, the closing stocks of the 1984-85 sugar year will be 11.69 lakh tonnes. The major problem is that for the second year running sugar production is 60 lakh tonnes and with demand allowed to exceed 80 lakh tonnes, there is a pressure on prices. Free sale sugar prices rose in December by Rs50 to Rs550 a quintal - which was an awkward

time for the government, and led to the show cause notice to 100 mills (of which nothing further was heard), and to an additional release of 50,000 tonnes. The mills pointed out that they were not to blame because the states had not lifted their share of levy, and this exerted pressure on the free sale sugar supply and prices. Some mills, about one third of them, did not comply with the statutory free sale release and so helped to push up prices. The price of sugar rose sharply from ₨565 per quintal in May to ₨685 in June and ₨800 in July due to the delay in the release of sugar by the mills and the inadequacy of the release. There is the likelihood of further rise in prices against which the government has imported 10 lakh tonnes of sugar, and is threatening the industry with all kinds of sanctions, which have not been defined. Given the rapid rate at which sugar consumption is increasing, the need to promote the increase in sugarcane production and limit its diversion to the gur-khandasari sector is clearly indicated. In addition, as stated earlier, should not the market be allowed to raise the (free sale) price of sugar as one certain means of restricting its consumption.

10.10.16 <u>Soda Ash, paints and varnishes: Soda Ash</u> production in 1984-85 was 8.17 lakh tonnes against the target of 9 lakh tonnes and demand above 9 lakh tonnes. Hence acute scarcity developed in the soda ash field, domestic production being short of demand. The official price of soda ash was ₨3200 per tonne, while the market price was ₨4200 to ₨4800 per tonne, resulting in rampant 'black' marketing. The reason for the short fall was held to be the ban on the import of tallow which is used in soap, and so as a substitute soda ash is being used, creating a supply-demand gap of 60,000 tonnes in 1983, 1.4 lakh tonnes in 1984 and a projected 1.5 lakh tonnes for 1985. In this situation, the import of soda ash is called for as a short term remedy. The quantum to be imported is variously assessed at 60,000 tonnes by the producers and 2.96 lakh tonnes by users, who want 1.14 lakh tonnes to cover the present gap

and 1.82 lakh tonnes for buffer stocking. Because of the high duty on OGL, imports declined sharply, but now it is increasing. Present capacity of 10 lakh tonnes will need to be added to, so that during the Seventh Plan the increasing demand can be met by creating annually 7 per cent of additional capacity. The recently issued guidelines are helpful though somewhat delayed. The most important part of it is that in deciding the allocation to each consumer during 1985-86, the manufacturers ensure that supplies to each equal "the best offtake during any one of the 3 preceding years". This will bring some relief now and in the meanwhile the new firms entering the industry will help increase supply. In 1984-85 19 firms with 1.60 lakh tonnes capacity in the organised sector and 900 units in the unorganised sector which increased to 1500 small and tiny units with capacity of 2 lakh tonnes produced 2.6 lakh tonnes of paints & varnishes. The organised sector was using about 80 per cent of its capacity, but the unorganised sector, due to lack of marketing facilities, has not been able to use morethan 50 per cent of its capacity. Due to rapid housing and urban development and the spurt in the automobile sector, the growth in this industry during the VII Plan, particularly for superior quality paints and varnishes will be high. This will require modernisation, which means closing a 15 year technology gap. The FERA companies in the field can help meet this demand.

10.10.17 Paper and Coir In 1984-85 the production of paper & paper board increased by 8.8 per cent to 13.6 lakh tonnes and newsprint by 11.9 per cent to 1.97 lakh tonnes. The improved performance was due to additional capacity, better coal supply, improved power and raw materials input backed by increased demand. The capacity of companies producing paper and paper board reached 23.49 lakh tonnes at the end of the VI Plan against the target of 20.50 lakh tonnes, and through Industrial Licenses and Letters of Intent a further 34.8 lakh tonnes have been approved. The other side of the picture is that in 1984-85 the demand was

15.40 lakh tonnes, while production was only 13.60 lakh tonnes. Besides between 1978-1984, while installed capacity increased by 9.4 per cent per annum, production increased by only 5 per cent per annum, bringing down capacity utilisation from 79 per cent in 1978 to 62 per cent in 1984. Does this mean that there is unplanned capacity expansion (unplanned in relation to demand), or is the industry cutting production to raise prices? In this matter of prices, the industry, which has to modernise 16 lakh tonnes of its capacity (11 lakh tonnes among large mills and 5 lakh tonnes in the small sector), wants the physical controls under the 10 year old Paper Control Order (under which it supplies levy paper to the education ministry at a subsidised price) to be replaced by acess, which it is willing to pay and which, it says, can be used to subsidise paper for educational purposes. Apart from this proposal increasing the industry's profits, it will make paper for educational purpose more costly, will lead to continuous demand to lower the cess, and to use the cess for modernisation instead of subsidising paper for educational purposes. For this, the levy price should be set at a level to cover costs - on a no profit no loss basis, along with other concessions given to the industry such as excise rebates on the use of unconventional raw materials such as bagassee, exemption of imported pulp and wood chip and waste paper from customs, and flexibility in the production of any variety of paper and paper board. The working group of the Planning Commission has established the demand projections of paper at 15.65 lakh tonnes in 1985, 19.20 lakh tonnes in 1990, 24.51 lakh tonnes in 1995 and 31.29 lakh tonnes in 2000, for which, assuming capacity use at 75 per cent there will have to be installed capacity of 20.07 lakh tonnes in 1985, 25.61 lakh tonnes in 1990, 32.69 lakh tonnes in 1995 and 41.72 lakh tonnes in 2000. This means that the capacity of existing mills will have to be expanded by 8 lakh tonnes, and new mills established with a capacity of 12 lakh tonnes, which along with the needed modernisation of existing mills will

require a total investment of Rs4300 crores during next 15 years. A related problem is the energy cost of the paper industry which is 20-25 per cent of its total production cost, and which, unlike aluminium, copper and steel industries, uses for the most part low grade energy (7 per cent of coal and 3 per cent of electricity of the entire industrial sector), which in 2000 will increase by 300 to 500 per cent. Hence there is need to search for other energy sources such as black liquor, steam, hogged fuel, mill sledge, hydrogen gas and solar energy. In the case of newsprint, the 1984-85 production was 1.88 lakh tonnes, about 50 per cent of the demand of 3.85 lakh tonnes. Its present installed capacity is 2.30 lakh tonnes and 5.38 lakh tonnes additional capacity have been approved, which when realised can replace imports. In coir production, 1984-85 continued the declining export trend at 26,145 tonnes compared to 27,949 tonnes in 1983-84 and 47,224 in the normal year 1979-80. The decline has been brought about through a series shortage of coconut husk due to (a) two years of drought and (b) its increased use as fuel, caused by the high price of firewood, which sent up the price of coir yarn by 20 per cent, closed 4000 small units in Cochin, throwing out of employment 40,000 workers. There is urgent need for the union and state governments to help the industry, which this year faces a 50 per cent rise in the price of husk, and which should be supplied to the extent of one third of the output at government prices to the cooperative sector of the industry, which covers 2 lakh workers out of a total of 4 lakhs.

10.10.18 Gem & Jewellery and leather Gem and Jewellery produced for exports declined slightly by -1.6 per cent in 1984-85 to Rs1302 crores compared to Rs1323 crores in 1983-84 and is projected at Rs1305 crores for 1985-86. This industry shares many features of the engineering industry. It is the second highest export item after engineering goods. Second the figure quoted above is gross, because to export Rs1302 crores in 1984-85, Rs1100 crores of precious stones and semi-precious

stones had to be imported, so that the net export earning is between Rs200-Rs300 crores (which is better than the engineering exports record). In the case of diamonds 90 per cent of the exports at Rs1172.10 crores is based on imports, leading to a net income of Rs306.85 crores. In the case of gold, the 7 August 1985 amended scheme provides for exporters to obtain gold replenishment at international prices so that gold jewellery exports can enter the below 14 carat jewellery area, which is much in demand in Europe. Gold jewellery exports in 1984-85 were Rs85.75 crores, (Rs15 crores net) and can be increased to over Rs100 crores in 1985-86. Leather goods production in 1984-85 increased by 2.2 per cent, sending up leather exports to Rs583 crores, the main export earners being finished leather at Rs230 crores and footwear components at Rs210 crores. The industry during the year raised several problems and issues. First there was the demand of some parts of the industry and the chairman of the Council on Leather Exports for the duty free import of raw hides and skins in order to attain the VII Plan target of Rs1070 crores (original). On the whole, this plea is unsustainable because (a) in 1984-85 (and similarly in the previous year) some Rs52 crores of semi finished leathers are exported which are turned into finished leather by European companies and sold at near double the export price This export can be stopped and used to meet any short fall in hides and skins;(b) the Central Leather Institute concurs with this view and points out that if raw skins are imported, machinery to process them for Rs300 crores will have to be imported, which will reduce export earnings by that amount. Second the VII Plan target which was fixed at Rs1070 crores, which is likely to be revised upwards to Rs1200 crores, as the 1985-86 target has been revised from Rs540 crores to Rs605 crores, will involve an annual 20-25 per cent increase in production and exports, with the footwear component being the largest share in exports. To attain this high target, the government, following the Pande Committee recommendations has announced a number of concessions to the

industry, ranging from duty free import of finished and semi finished leather to reduced customs on machinery. These various incentives and concessions along with the liberalisation of controls are attracting large houses and multinationals, who are being given licenses for shoe manufacturing, till now reserved for the small scale sector. This is not in line with the government's assurance to the Council for Leather Exports that it will not permit any more addition to the existing leather capacity but will extend full support only to new units entering the product export field. The small units will become uncompetitive vis a vis the large houses. Finally there is the problem of pollution caused by the tannery effluents. In Tamil Nadu, 7 tanneries along the river Palar have heavily contaminated the ground water in the Palar basin, affecting the potability of water and 16000 hectares of agricultural land. At one town the total dissolved salts and other solids exceed permissable limits, at another town water from the wells showed an increase of 100 per cent chloride content and 90 per cent in electric conductivity, (798 hectares of agricultural land in Ambur, 474 hectares in Vaniyambadi, 471 hectares in Pernambattur, 394 hectares in Arcot and 391 hectares in Ranipet have been seriously affected, and their production of paddy, sugar cane, plantains, groundnut, maize and coconuts have been sharply reduced). This is also an All India problem. The leather industry was to have invested Rs40 crores for the treatment of Tannery effluents. The Development Council for Leather urges the Planning Commission to include this sum in the VII Plan so that the industry could get the required financial assistance.

This detailed review of the manufacturing industries needs to be supplemented by a look at the infrastructure on which they are dependent.

11. Infrastructure

11.1 Energy General On the basis of the report of the Advisory Board on Energy and a CMIE synthesis,[44] a general profile of the current and future energy scene in India can be traced. In terms of million tonnes of coal replacement, electricity has increased from 27.67 in 1970-71 to 60.00 in 1985-86 at a rate of increase of 5 per cent; coal from 72.95 to 155 million tonnes at 5.2 per cent increase; petroleum products from 124.41 to 276.25 at 5.4 per cent increase; and natural gas from 8.05 to 41.72 at 11.06 per cent increase. Thus commercial energy as a whole increased from 233.08 million tonnes to 532.95 million tonnes, which is a 5.7 per cent increase per annum, and when put alongside of the GNP increase of 3.9 per cent gives a commercial energy intensity of 1.5 per cent, which is too high and should be reduced to 1 per cent, by using more traditional and non conventional sources like gobar gas, solar energy, efficient fire wood burning stoves, (a recent study points out that as against 1-2 tonnes a day that 10 villages burn as firewood, a city like Bangalore consumes 1200 tonnes of fuel wood a day for which 10 hectares of forests have to be cleared)[45], and other energy saving technologies, alongside of raising the price of commercial energy. If the economy grows at the 5 per cent rate proposed for the VII Plan, during the next 20 years, the demand for commercial energy will increase 2 fold, which means the demand for oil will increase from 38 million tonnes to 100 million tonnes, coal from 150 million tonnes to 500 million tonnes, and electricity from 4200 MW to 1.4 lakh MW. The total energy resources are hydel power of 50 million KW of which only 17.5 per cent is harnessed, coking coal reserves of 2100 million tonnes which will last 74 years, non coking coal of 37,000 million tonnes which will last 121 years, crude 5900 million tonnes and thorium 4.5 lakh tonnes. For the future, against the norm of 42.1 per cent of oil, 33 per cent of electricity and 24.9 per cent of coal consumption of total energy consumption,

the actual is 48 per cent, 36.6 per cent and 21.4 per cent respectively, and hence there is an urgent need to replace crude by coal and electricity wherever possible now, and by renewable sources in the long run; there is need for a minimum needs programme of social forestry, biogas, solar energy and other renewables: and for energy savings technologies, there is need for good housekeeping, the use of energy saving oven, the chula, installation of waste heat recovery systems, replacement of old and inefficient equipment, introduction of an integrated rural energy system, and starting energy audit of energy intensive industries.

11.2 Electricity The electricity infrastructure presents a mixed picture. First the supply-demand balance. In 1984-85 power generation at 156.7 billion units increased by 16.7 per cent but demand for power increased by 16.9 per cent, so that the power deficit which was 10.8 in 1983-84 increased to 11 per cent in 1984-85. Second to light up these somewhat cold statistics, it should be noted that the northern region faced a power deficit of 14 per cent resulting in Punjab and Haryana cutting power to industrial units, on some days by 100 per cent, Jammu and Kashmir cut on industry 17 hours a day, the eastern region had 17 per cent shortage, resulting in heavy cuts as well as frequent load shedding in West Bengal and continuous power cuts in Orissa, the southern region faced a 10 per cent deficit resulting in 60 per cent cut on HT users and 40 per cent on others in Karnataka and 40-50 per cent cuts in Tamil Nadu. Third a balance sheet for the Sixth Plan shows that while power generation increased by 7.5 per cent per annum, industry grew by 5.3 per cent per annum, which means that 1.1 per cent increase in power generation gave 0.70 per cent industrial growth. On this basis, the 12 per cent increase in power generation should have produced an industrial growth of 9 per cent in 1984-85 over the 5.5 per cent in 1983-84.

Fourth there is fluctuation in the use of installed capacity, as seen in the Plant Load Factor which was 50.1 per cent in 1984-85 compared to 44.6 per cent in 1980-81. The slippages in attaining the targets of power generating capacity result in power availability being less than demand. In the VI Plan the target originally was 19,666 MW, which was scaled down to 15,000 MW[46], and actual attainment was 14,576 MW. This slippage is the major reason for the power deficit along with poor capacity use, inadequate supply of coal to thermal plants and monsoon failures. If the Plan Load Factor could be increased to 58 per cent there will be no power deficit. Fifth the cost escalations and time delays which characterise major power projects is worrisome. Both delays and change in scope of a project lead to cost escalation, in some case involving doubling of the cost as in the case of Singarauli super thermal stage II increasing from Rs494.37 crores to Rs802.3 crores, with its unit VI originally scheduled for commissioning in 1984-85, now post-poned to January 1987, stage I of Korba super thermal increasing from Rs551.70 crores to Rs856 crores, Ramagundam stage I from Rs575.28 crores to Rs1182 crores, Farakka stage I from Rs320.84 crores to Rs622.82 crores, Rihand stage I from Rs1033 crores to Rs1364 crores and Vindhyachal stage I from Rs1110.42 crores to Rs1581 .21 crores. Finally the construction of transmission lines which are the life lines of all power projects is lagging. In 1984-85 the target was revised from 2807-400 KV lines to 1574 circuit kms and from 3728-200 KV lines to 3120 circuit kms, and the actual achievements even lower at 1030 and 2102 circuit kms. For the VI Plan as a whole, the short fall is 54 per cent. There is no use building super thermal plants without transmission lines. For 1985-86, the target is 170 billion units (110 billion thermal, 4 billion nuclear and 56 billion hydel) involving 8.5 per cent increase. This is the minimal requirements for an 8 per cent industrial growth. In the first 2 months, April & May power generation has increased by 7.7 per cent, due to 15.6 per cent increase in thermal, which compensated the 9.8 per cent decline

in hydel.

11.3 Coal Coal production in 1984-85 was marked by the following features. First production in the last year of the VI Plan was 147.45 million tonnes. It should have been 165 million tonnes, according to the original target which the mid term appraisal reduced to 152 million tonnes[47], with the actual being about 4.55 million tonnes lower. Second Coal India reports mounting pit head coal stocks at 30.42 million tonnes on March 1985 compared to 22.69 million tonnes in March 1984, locking up Rs700 crores of Coal India resources, while consuming industries complain of lack of coal supply. Coal India blames Railways for not supplying the wagons for this shortage, whereas the Railways state that they made available adequate wagons and that it is bad planning of Coal India in moving coal which led to the shortage. The fact is users, particularly in the South, face serious short supply. The Tamil Nadu government for instance imported 1 lakh tonne of coal from Australia, and is pleading for permission to import a second lakh tonne. Textile mills, power houses and major industries face acute shortage due to poor allotments and irregular loadings. In this context, the decision by Coal India to regulate production so as to produce 1 million tonnes less is curious. In fact because of reduced coal transport, SAIL and Coal India have offered to buy wagons to transport coal for their use. Third the poor quality of coal continues to hamper users like thermal plants. Coal India has set up an independent quality control organisation in each coal company, installing more coal handling plants for sizing and screening coal and removal of extraneous material. The most important move needed is to increase under ground mining and cut open cast mining, which was used to make up the 9 million tonnes shortage in 1984-85. For 1985-86 the demand is estimated at 163.80 million tonnes and the production target is fixed at 158.30 million tonnes, the balance to be met by drawing on pithead stocks. The Planning Commission is reported

to have reduced the Seventh Plan target from 240 million tonnes to 216 million, and its allocation from Rs11000 crores to Rs8000 crores.

11.4 Crude Crude production in 1984-85 continues to be one of the few success stories of the Indian economy, with the target being revised upward from 21.6 million tonnes to 29.6 million tonnes and an actual production for the year at 29 million tonnes (which is a remarkable expansion from 10.5 million tonnes in 1980-81). An important development is the refining capacity of the country. Till the end of the sixties, because of cheap imported oil, the refining plants were set up at port towns. Since then the location of the plants has been diversified, and by March 1985 the refining capacity has become 45.5 million tonnes. With the completion of the current extensions, namely, 6 million tonnes at the Karnal refinery, 6 million tonnes in the Mangalore refinery, and the extensions of the plants at Koyali and the North East to absorb the increased crude production in Gujarat and Assam, the country would be near self sufficiency in regard to refining capacity. To keep Bombay, Haldia and Madras refineries, which produce lubricating oils, going for which domestic crude is not suitable, some 8-9 million tonnes must be imported. In this connection the question arises as to whether imported petroleum products will be cheaper than imported crude. At present only 68 per cent of total refining capacity in the world is being used, and with OPEC building new refining capacities, when 30 per cent of its exports will be petroleum products, it might be cheaper for India to import petroleum products in the future than crude. Earlier reference was made to the profitable manner in which the petroleum sector is functioning. In fact OIL India is the most efficient and economical plant in the public sector. Its percentages of net turnover to the capital employed is 249.10 and in fact for the whole petroleum sector, it is 352.79, which is an indication of the economical and effective way in

which capital in this sector is deployed. As noted earlier, this is one of the few areas in the Public sector which produced large surpluses. In last year's Mid Year Review, I called attention to the unhealthy tradition that was started in using the surplus to the extent of Rs1100 crores in order to reduce the real budget deficit of Rs4055 crores.[48] Not only should the oil industry surplus not be used to hide budget deficits, it should rather be used in exploration, refining, R&D and above all in speeding the movement from oil to coal and electricity in the medium term and to renewable sources of energy in the long term as the Advisory Board on Energy suggests. An interesting development in 1984-85 is the decision of the government and OIL India and ONGC to invite the participation of the Indian private corporate sector in exploration and drilling. OIL India has called for the companies of Indian origin for drilling in the Mahanadi. ONGC reports that it has received 15 offers from Indian companies for offshore drilling. 26 Indian companies have formed joint ventures with foreign companies for their work on ONGC/and Oil India schemes. In this connection, there is a feeling among Indian companies that they are not as welcome as foreign companies as ONGC seems to impose extra obstacles and conditions as far as they are concerned. This feeling should be removed and Indian companies should be given the same consideration as foreigners. An early decision by ONGC is needed to enable the Indian companies to buy the needed rigs and equipment, which unlike the foreign companies, they will purchase internally. The decision by the government to raise petroleum product prices by 15 per cent at the time of the presentation of the budget was noted earlier and commended. In fact, the price should be continuously raised to cut the rate of increase of the consumption of this non renewable resources. For 1985-86, crude production has been fixed at 30 million tonnes, net imports are expected to near double from 7.60 million tonnes in 1984-85 to 13 million tonnes in 1985-86. In regard to the VII Plan target of 46.5 million tonnes (which the finance ministry wishes to reduce to 35 million tonnes), the problems are:

(a) the target calls for 1000 exploratory wells and 1823 development wells which is too high a success ratio in relation to the VI Plan experience, (b) in the absence of any new discovery, Bombay High is being flogged, (c) the problems of exploration as experienced by the companies, (d) the burden of imports at 17 million tonnes in the VII Plan, (e) the forecast of the consumption demand of 100 million tonnes in 2000 which will invove an even higher import burden of 50 million tonnes (which is the reason for reducing this rate of increase) and (f) the need to replace the wasteful flaring of gas and ensure its use as effectively as that of other petroleum products.

11.5 Railways In 1984-85, the Railways carried 237 million tonnes of goods traffic compared to 230 million tonnes in 1983-84, and except for the delivery of coal to major consumers, as noted earlier, provided adequate transport infrastructure, despite not attaining the year's target of 245 million tonnes, due to the shortfall in the demand and traffic of the core sector items of steel, pig iron and iron ore. During 1985-86, the railways are slated to carry 250 million tonnes of goods traffic and to increase its passenger traffic by 3.14 per cent. The problems faced by this vital infrastructure is the accumulated backlog of worn out tracks, antiquated and inadequate wagons and outworn equipment and bridges. The situation is particularly serious with regard to wagons of which 1.9 lakhs were needed but only 1 lakh were to be procured during the VI Plan, which were subsequently reduced to 78,000 due to lack of funds, and only 70,000 actually procured. This reduction of wagon procurement explains in part the bottleneck in coal supply, and when set against the backdrop of the bumper foodgrains harvest and increased fertiliser production. The effect of this cut back of wagon procurement, which has been going on since the IV Plan, on the wagon industry is disastrous. There were 16 firms in the private sector, with the capacity to produce 40,000 wagons

in 1967, and using 70-80 per cent of the capacity in the first three Five Year Plans, after which 8 were closed and 4 were nationalised to prevent closure. Hence at present there are 8 units with a capacity of 26,040 wagons, but working at no more than 50 per cent capacity, which raises their average cost of production, besides losing the export market, through which even in 1979-80 it earned ₨25 crores and which declined to ₨9 crores in 1980-81. It is absolutely essential that the Railways be given adequate plan and non plan funds to replace their outdated equipment and tracks and procure the 1.25 lakh wagons which is the minimum needed for the Seventh Plan. On other hand, the Railways must cut back on their administrative costs and their wasteful expenditure as pointed out by the Comptroller and Auditor General, inter alia, (a) the procurement of 4177 tank wagons in excess of requirements leading to idle investment of ₨46 crores, and yet a shortfall in railway loadings leading to a loss of ₨13 lakhs per annum for each unloading point and payment of a subsidy of ₨18.08 lakhs to oil companies for road haulage; and (b) the investment of ₨197 crores on construction activities which did not achieve the expected benefits but resulted in employment of excess staff, delays in execution and infructuous expenditures.[49]

11.6 Shipping presents a positive and negative picture. On the positive side, port capacity in the Sixth Plan increased by 35 per cent from 101.3 million tonnes to 136.7 million tonnes, exceeding the Plan target of 131 million tonnes. In 1984-85 the total cargo that passed through the ports was 106.7 million tonnes, including 3.05 lakhs containers. Further in that year, the major ports were relatively free from congestion. For 1985-86 the cargo throughput of the ports is fixed at 112 million tonnes. The problem are: i) the fall in capacity use of ports from 87.5 in 1982-83 to 78.9 per cent in 1984-85, particularly at Calcutta, Paradeep, Vizag, Cochin and Kandla due in part to fall in iron ore exports, inadequate rail and road transport,

obsolete port equipment and surplus labour: and ii) the major issue being the share of Indian ships in Indian sea borne trade which ranges from 32 to 50 per cent. Here the problem is that Indian ships cannot compete with foreign liners, who, because of the recession in world merchandise trade along with their overall increased shipping tonnage following from the decline in the price of ships, are able to offer low freight rates, which the Indian companies cannot match. Hence the 11 Indian major shipping lines which account for 80 per cent of the tonnage carried in Indian bottoms lost Rs17.04 crores in 1981-82, Rs108.31 crores in 1982-83 and Rs150 crores in 1983-84. This means that the VI Plan target of 7.5 million GRT in operation and 0.5 million GRT on order will in effect be 1.2 million GRT less in execution, to which must be added the tonnage vessels which are to be scrapped. So the VII Plan target of increase for the national bottoms by 50 per cent needs (a) concerted efforts by both the public sector and private sector shipping companies,(b) allocation of funds for modernisation of ships, (c) upgradation of ports equipments, including increasing the containerisation of cargo to 50 per cent against the current 15 per cent, and (d) merging some of the 69 private shipping companies to make them viable and enable them to carry their debt burden of Rs250 crores.

It is now necessary to relate the current and prospective developments of the economy to its savings and investments:

12. Savings and Investment

12.1 Savings and investments which according to both CSO and the Reserve Bank declined in 1983-84 in both net and gross terms moved forward in 1984-85, as the following table, which updates the comparable tables presented in the previous mid year reviews, shows:

Table XIII

Year	Percentage of GDP Current Prices Savings	Percentage of GDP Current Prices Investment	Percentage of GDP 1970-71 Prices Savings	Percentage of GDP 1970-71 Prices Investment	Percentage of NNP Current Prices Savings	Percentage of NNP Current Prices Investment	GNP Growth Percentage 1970-71 prices	Industrial Growth Percentage 1970-71 prices
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1970-71	16.8	17.8		17.8	12.5	13.1	6	4.2
1971-72	17.3	18.4		18.3	11.4	12.9	1.6	3
1972-73	16.2	16.9		17.3	12.6	13.4	-1.1	-3
1973-74	19.3	20.0		21.4	11.8	13.8	5	-3
1974-75	18.2	19.1		19.3	14.6	15.6	1.2	2
1975-76	20.0	19.9		18.3	16.1	15.9	9.6	9.8
1976-77	22.0	20.4 20.7		19.3	18.4	16.7	0.8	5.3
1977-78	21.6	20.0 20.4		19.1	18.3	17.7	8.9	6.9
1978-79	23.9	23.7 24.8		21.4	20.1	19.7	5.7	7.7
1979-80	22.5	23.0 23.7		19.7	17.2	18.0	-4.8	-1.4
1980-81	22.9	24.6			16.1	19.6	7.7	4.1
1981-82	23.0	23.9			16.5	19.7	4.6	8.2
1982-83	22.8	24.4 25.1			16.8	18.8 19.1	1.7	3.9
1983-84	22.6	23.9 24.0			14.6	18.4 18.0	7.6	5.5
1984-85	23.1	25			17.5	19.1	3.5	5.3

Source: Columns 2 to 5 upto 1979-80 are from the Planning Commission's working group on Savings except that from 1976-77 to 1979-80 under columns(3). CSO estimate is also givenat the bottom of each year. Columns 6 & 7 are from the Annual reports of RBI, except in columns (3) and (7) from 1980-81 the CSO estimate is given at the top.

The table seems to be somewhat complex, with alternate estimates given for 7 years in the case of gross investment as percentage of GDP and for 3 years in the case of net investment as percentage of NNP. I have given these alternatives to help the researcher find his way through what may otherwise seem to be conflicting data. But as the Planning Commission's working group pleaded[50] and as I have in the last 6 mid year reviews, it is necessary that the Reserve Bank, the Planning Commission and CSO get together and agree on a uniform methodology which will give the interested public a single set of figures. Several issues are raised by the above table.

12.2 First the remarkable increase in gross aggregate savings at 23.1 per cent in 1984-85 which is the second highest after the 23.9 per cent recorded in 1978-79 means that the Seventh Plan assumption of 26 per cent savings[51], while not already achieved as stated in the Approach Paper, is achievable during the Seventh Plan. The three caveats in this regard are: First the exact year of achievement is difficult to forecast, it could well be towards the end of the Seventh Plan, rather than at its start when the rate is/will be 24 per cent. Second of the public sector outlay is to be maintained at Rs180,000crores with a lower rate of savings (at 24 rather than 26 per cent), then either ICOR has to be reduced for the VII Plan, which is unlikely (see next para) or the private sector outlay cut, which will mean a lower industrial growth rate. On this Hobson's choice there is, as yet, no light. Third the 26 per cent of gross savings was conceived at 1984-85 prices, and in the 15 months since March 31, 1984 inflation has exceeded 12 per cent.

12.3 Second the striking contrast between the high savings and the high investment rates (in the case of investment rate, the 1984-85 record is the highest on record) on the one hand, and the low overall economic growth rate which in the VI Plan has averaged 5.02 per cent and has continued, possibly at a marginally higher level, the 3.6 per cent trend level of growth on the other needs explanation. The industrial growth rate has also been stagnating at around 5 per cent. This involves inefficient use of scarce capital noted earlier, in the high and growing capital-output ratio in the case of agriculture. In the manufacturing sector the incremental - capital output ratio (ICOR) has been steadily rising. The Sixth Plan estimates

that at 1970-71 prices the ICOR was 3.2 in the First Five Year Plan, 4.1 in the Second Plan, 5.4 in the Third Plan, and 5.7 in the Fourth Plan, with a drop to 3.9 in the Fifth Plan. The Seventh Plan estimates that ICOR rose to a sharp 6.8 in the Sixth Plan which is also my estimate. The actual capital output ratio varies from industry to industry, and within each industry as between large, medium and small scale units, ranging for instance from a high 25,308 in the case of electricity, gas and water supply undertakings, and 8.2887 in railways to a low 0.9338 in construction units. Further all ICOR estimates are fraught with many imponderables, such as weather induced changes in production, differential rates of inflation - both wholesale general and for capital goods and machinery -, varying time lags, and changes in the composition of investment. But both the Sixth and Seventh Plan estimates and mine point to an average 6.8 which is an indication of the under utilisation of capacity, the holding of inventories above optimal amounts, the technologically outdated nature of equipment and machinery used, and all the factors - managerial, industrial relations, and the gestation delays - which make for ineffective use of capital which the table above highlights.

12.4 Third, one of the weaknesses of the table is that except for column 5 it does not show savings and investment in real terms. Column 5 shows net investment in constant prices for a 10 year period which indicates a rather small range of increase - of 9.6 per cent - over the period. Another way of examining the trends of investment in real terms is to use the CSO index for real investment with 1970-71 as base, as given in the following table for the VI Plan period.

Table XIV

Year	Index (base 1970=100)	% change over preceding year
1979-80	155.1	-9.4
1980-81	169.2	9.1
1981-82	166.4	-1.7
1982-83	168.2	1.1
1983-84	178.7	6.7

Source: CSO estimate of gross capital formation

Thus for the Sixth Plan real investment growth works out to 3 per cent per annum and if the CSO series are taken for the period 1970-71 to 1983-84 the compound annual rate of growth is 4.3 per cent. On the basis of the availability of capital goods as well as steel and cement discussed in the earlier section, this figure of the real growth of investment at around 3 per cent for the VI Plan and at 4.3 per cent since 1970-71 when taken along with the annual 15 per cent increase in the Plan outlays in money terms, shows the gap between investment trends in money and real terms. It also explains the continuous and sharp rise in the price of capital goods.

12.5 Fourth the gap between the total gross domestic savings as percentage of GNP and the total gross investment (also as per cent of GNP) has been growing as between 1983-84 when it was 1.4 per cent of GNP and 1984-85 when it was 1.6 per cent of GNP. For the most part, this is an indication that the target of attaining zero net aid which was set forth at the time of the formulation of the Fifth Five Year Plan has been abandoned. In fact our aggregate gross capital formation is increasingly dependent on the inflow of foreign savings as resources, which the aid India consortium promotes.

12.6 Fifth the components of the net domestic savings show the continuing and growing role which the household sector plays, as the following table brings out:

Table XV

(at current prices)

Sector	1982-83	1983-84	1984-85
1. Net household sector savings as % of NNP-	12.9	13.9	14.3
of which savings in financial assets were-	7.4	7.5	8.3
2. Net public sector savings as % ofNNP	3.2	2.1	2.5
3. Net domestic private corporate sector's savings as % of NNP	0.7	0.6	0.7
4. Total Net domestic savings as % of NNP	16.8	16.6	17.5

Source: Annual Report Reserve Bank of India 1984-85

The table shows that the household sector contributes between 1982-83 per cent of the total savings of the country. Its savings in physical assets was 5.5 per cent in 1982-83, 6.4 per cent in 1983-84 and 6 per cent in 1984-85, while its savings in currency kept growing, being 1.5 per cent of NNP in 1984-85. The total deposits by households were 5.4 per cent of NNP, for reasons to be discussed in the next session. The public sector savings are disappointingly low, and make a minimal contribution to the savings of the country. The urgency for the public sector to increase its surpluses during the Seventh Plan has been earlier emphasised.

12.7 Sixth though the deposits of the household sector were sizable, the role of interest rates which stimulates deposits needs some examination. In fact changes in interest rates on deposits which are savings and on deposits which are bank advances to businessmen have different effects: high interest rates can mobilise large savings, can ensure more productive and efficient use of investments, and can help

banks manage their portfolios so as to increase their profitability. Over the 10 year period 1974-1984, interest rates on deposits moved little by 1½ to 2 per cent and by 1½ per cent on advances. The interest rates which influence the amount of a community's savings are the real rate, that is the money rate deflated by the price rise. Interest on investment is determined by the demand for capital and the productivity of capital. In this sense, interest rates have a double function, a high rate encouraging savings and a low one encouraging investments. This means real high interest rates will make holding money deposits more attractive than holding physical assets. While aggregate deposits rose ten fold between 1970-71 to 1983-84 and as proportion of GNP increased from 15 to 33 per cent, the level of deposits in the country is still low in relation to other countries. Per capita time and demand deposits at Rs749 in 1983-84 are lower than levels in other developing countries which range between Rs777 and Rs9000. The need for making deposit rates more attractive is seen in the fact that real interest rate on savings (that is the money rate minus inflation rate) was negative in 11 out of the 15 years between 1970-71 and 1983-84. This pegging of interest rates at low levels in general, adversely affected, savings, leading to the diversion of savings to land, real estates, gold, conspicuous consumption, hoarding and specultion - what the table above describes as physical assets. Similarly the range of interest rates on advances varied from 14 per cent for 45 per cent of the credit advanced, 17 per cent for 37 per cent of the credit and 18 per cent for the balance of 18. It seems that both deposits by the household sector and advances to the commercial sector are below the optimal level because of the rigidity and narrowness of rates on deposits and advances. Both savings and investments can be expanded by greater flexibility being given to the banks in regard to the structure of interest rates. Unfortunately the

one essay in this direction misfired. In April, the Reserve Bank of India allowed banks to give interest upto 8 per cent for deposits from 15 days to less than 1 year. Some banks, mostly the foreign ones, started offering the full 8 per cent interest for 15 days deposits and so depositors switched from current deposits to 15 days deposits which also met their liquidity needs. The Reserve Bank was thus on May 27 forced to withdraw the freedom to the banks and ordered the return to the pre April 8 status - that is, interest rates at 3 per cent for the 15-45 days, 4 per cent for 46-90 days, 6.5 per cent for 91 days to 6 months and 3 per cent for 6 months to 1 year. Thus the flexibility given to the banks (which they did not seem to want as the IBA promptly went back to the old rates any way) is now replaced by the old rigid, narrow rates.

13. Foreign trade and Balance of Payments

13.1 The foreign trade position of the country recorded some improvement in 1984-85 compared to the previous years, but the trade deficit of the country will continue in 1985-86 as well above the ₨5000 crores as the following table shows:

Table XVI

	Exports		Imports		Trade	As % of GNP		
	₨ crores	%Change	₨ Crores	% Change	Balance	Exports	Imports	Trade Balance
1980-81	6,711	4.6	12,549	37.3	-5838	5.3	9.8	4.6
1981-82	7,806	16.3	13,608	8.4	-5802	5.3	9.2	3.9
1982-83	8,908	14.1	14,356	5.5	-5448	5.5	8.8	3.3
1983-84*	9,872	10.8	15,763	9.8	-5891	5.1	8.1	3.0
1984-85*	11,297	14.4	16,485	4.6	-5188	5.2	7.6	2.4
1985-86 government target	11,736	4.2						
1985-86 World Bank forecast	11,478		19,195	10.0	-7,717			

*On August 23, the following revision was issued by the ministry with a note that there will be further revision in the future:

Year	Exports	% change	Imports	% change	Trade balance
1983-84	9468.25		15,332.16		5914
1984-85	11395.98	20.4	16,591.86	7.9	5196

In April 1985 exports are report at ₨783.34 crores compared to ₨524.95 crores in April 1984 (49.2per cent increase) and imports ₨1344.27 crores compared to ₨955.52 crores(40.7per cent)

Source: Economic Survey and World Bank

Exports in 1984-85 expanded to Rs11,297 crores by 14.4 per cent, the 6 exports which showed increase in descending percentage terms were jute goods Rs265 crores (82.9 per cent), rice Rs153 crores (59.4 per cent), cotton fabrics Rs470 crores (47.5 per cent), tea Rs774 crores (39 per cent), handloom fabrics Rs211 crores (35.3 per cent) and processed foods Rs265 crores (30.5 per cent). Both the overall quantum of exports for the year and the record of individual items referred to above will need to take account of the following limiting factors: (a) the extent to which export earnings are high because of the higher and soaring value of the dollar: (b) the March 1984 Bombay dock workers strike which pushed some exports somewhat artificially into 1984-85: (c) the very high rise in the price of tea which may lead UK and other foreign consumers to turn to other beverages: (d) the fall in export demand for Indian diamonds which may represent a long term trend: and (e) the lack of diversification of export products and the want of a few reliable exportable goods: and on the import side, the top six items in value terms are crude oil and petroleum products Rs5135 crores (8 per cent), machinery and transport equipment Rs2800 crores (-1.2 per cent), fertilisers Rs1623 crores (344.7 per cent), pearls, precious and semi precious stones Rs1100 crores (1.8 per cent), edible oils Rs1286 crores, (52.0 per cent) and iron and steel Rs700 crores (-27.3 per cent).

13.2 The trade deficit facing the country is grim, though not as bad as the World Bank projection which for 1984-85 was a deficit of -Rs7069 crores and for 1985-86 is, as set forth in the table, -Rs7717 crores. The government has set a slightly higher export target than that ofthe World Bank (by Rs250 crores more), and should work to an import target of Rs16000 crores, if not less. To attain this target, the government should reduce the following imports of 7 items: (a) crude oil by Rs500 crores, (b) fertilisers by Rs1000 crores, (c) edible oils by Rs1000 crores,

(d) iron steel by Rs500 crores, (e) cement by Rs50 crores and (f) wheat and sugar by Rs300 crores. As indicated in the manufactures section, on each item, domestic production, through increase of 10-20 per cent of capacity use, can replace these costly imports. There may be some belt tightening in the case of sugar and petroleum products, but this is a discipline that must be undergone, particularly in view of the prospects opened by the import-export policy announced in April 1985.

13.3 The new policy on imports and exports announced on April 12, 1985 has been set for a 3 year period 1985-86 to 1987-88, which is desirable as it is an attempt to introduce some continuity in the policy, but for that very reason should have been part of the VII Plan, which is expected to be tabled in September 1985. The major features of the new policy aimed at liberalisation of imports are: (a) adding 201 industrial machinery items to OGL imports, (b) 467 items of raw materials and components have been transferred from automatic permissable list to OGL, 467 of them to OGL and 60 to limited permissable list, (c) import of 53 items are decanalised, 17 being placed in OGL, 20 in the limited permissable list and 16 in the restricted list,

(d) the links of the flow of the enlarged imports to exports are strengthened, but this is not important because, as the Reserve Bank points out, replenishment licenses are used to import raw materials and machinery by industrialists for sales in the domestic market. The RBI statistics is that the proportion of the registered exporters in the total of import licenses was 52.4 per cent in 1981-82, 53.5 per cent in 1982-83 and 55.8 per cent in April-November 1984, while import licenses to actual users were only 22.8 per cent, 22.6 per cent and 22.6 per cent for these 3 years.[52] So the imports have not led to a growth of exports as the share of the

principle manufactures - from textiles, iron and steel, processed foods, tobacco, cashew kernels, to basic chemicals - are declining from 40 per cent in 1980-81 to 25 per cent in 1983-84. The basic thrust of the policy seems to be to enlarge industry's access to imported capital goods and raw materials on an across the board basis without relationship to the Plan objectives of employment generation, poverty amelioration, and inter industry relations. This also means that the capital goods industry which faced the constraints of a limited market and rapid technological changes will now also have to face heavy imports, resulting in the kind of situation in the textile machinery industry

which, in face of the flood of imports, is being limited to manufacturing sewing machines in large part. In all fairness, it must be admitted that the 1985 policy continues the 8 year trend, which started with the Alexander Committee report of 1978-79, and the 1982-83 import liberalisation which was one of the conditionalities of the IMF loan. The internal and external consequences of this long term policy include (a) the liberal import of plant and machinery affecting BHEL, HEC, the textile machinery industry and weakening investment in the capital goods industry of the country, (b) the development of "screw driver technology" in the country involved, which is based on the meeting of the demand of the top deciles of societyon the basis of an international division of labour, under which the industrialised countries and their multinationals provide technology and plants to India, and the newly industrialising countries who, using the "screw driver technology" assemble or reprocess these imports for use of their elites: (c) the decelerating flow of remittances: (d) the strong US dollar which takes funds out of the country with the large annual trade deficits exceeding Rs5000 crores: (e) the poor self sufficiency

prospects in crude oil due to the slow down in new discoveries, (f) the IMF SDR 3.9 billion credit which has to be repaid from this year.

13.4 The ostensible reason for liberalising imports has been and is reiterated in the policy of April 12, 1985 is to promote exports. In the new policy for this purpose, REP licenses are overtaken by OGL as noted earlier; the new pass book introduced to counter misuse of the facilities, which will however, add to the confusion of rules; the scheme of export houses and trading houses going into the limbo as the turnover to qualify for them is raised from ₨50 lakh and 75 lakhs and the introduction of the criteria of net foreign exchange earned (which is a right measure), which, however, will disqualify many of them; the record to date of the 100 per cent export oriented units and the Free Trade Zones, which in the new policy have been linked, is not only very limited as far as export growth is concerned, but also their net foreign exchange earnings are declining, as they import a great part of their raw materials and machinery. Apart from the misuse and ineffectiveness of the 100 per cent export oriented units and Free Trade Zones, almost every month announcements are made for enlargeing the cash compensatory schemes, replenishment of imported inputs, export credit at concessional rates of interest, draw backs of customs and excise etc, which have not resulted in any real expansion of exports, which, excluding crude exports, during the whole of the VI Plan had expanded exports from ₨7595 crores to ₨9480 crores, that is by less than ₨2000 crores. Percontra, these subsidies - overt and hidden - have attracted counter measures as in the case of the US banning of the import of fasteners and the European community reducing India's quota of textile imports. The time has come to recognise that exports will expand only as the efficiency and productivity of domestic agricultural and industrial production increase and become cost competitive,

and a review is undertaken of the various hidden and over subsidies and incentives and their use and misuse, with a view to reducing them and ensuring that they are really addressed to increasing exports.

13.5 In this connection, a proposal has been made by an ex-economic Adviser to the Government of India to replace all import concessions and controls and export subsidies by a dual exchange rate system. Under the system the rupee rate to the US dollar will be 1 Re = 10 UScents for traditional exports and essential imports, and 1 Re = 15 US cents for non traditional exports and inessential imports. This is an attractive proposal, where the only leak could be, obtaining foreign currency loans to import inessentials at a price which is one third lower, and trading in foreign exchange, but which could be both plugged if the dual system is applied also to capital transactions and remittances. The proposal merits further study because we have taken for granted too long a single exchange rate as the only path to growth, which it is not: this is similar to our concern about the falling value of the Rupee which is said to be worth 13.3 paise at the time of the presentation of the union budget, overlooking the fact that all other currencies have similarly depreciated, the nominal exchange rate falling by 20 per cent in 1971-75, 28 per cent in 1978-79, and in 1983 while the real exchange rate depreciated by 11.5 per cent and to 17 per cent, but rose by 15 per cent in 1979-83[53], the further study should include study of its effect on our current account balance. To continue with the present export-import policies however, with the high cost domestic structure is only an invitation to massive smuggling, as was admitted this year in parliament[54] in regard to the contra brand seized during 1984 as set forth in the table below:

Table XVII

Goods seized	Value (Rs crores)
Electronic goods	19.99
Synthetic fabrics	18.41
Watches	11.14
Gold	10.09
Others	40.09
Total	100.56

Source: Ministry of Finance

One positive element in the export picture has been the Export Credit Guarantee Corporation which has promoted exports by providing insurance against (a) export credit risks (b) political and economic risks and (c) bank advances on exports. In 1983, its volume of business fell to Rs8463 crores compared to Rs9430 crores in 1982, due to shrinking project exports resulting from the fall in oil revenues of the OPEC countries, notably Iraq and Iran, and the liquidity problems of the developing countries. Its net surplus has shrunk even faster from Rs221.37 lakhs in 1980 to Rs61.79 lakhs in 1983 due to its carrying for the country's exporters increasingly heavy burdens. The Corporation has, however, diversified its activities, providing insurance cover for foreign currency bank loans to Indian contractors, and for service exports like engineering consultancy and computer and banking services, (whose inclusion in the next round of GATT negotiations has become a matter of controversy).

13.6 The country's current account balance of payments, like the trade deficit, has remained at a high level of Rs2000 crores both for 1984-85 and for major part of the VI Plan as the following table shows:

Table XVIII

*Item	1980-81	1981-82	1982-83	1983-84	1984-85
1. Exports (FOB)	6576	7766	9137	9900	11300
2. Imports (CIF)	12544	13887	14913	15800	16500
3. Trade balance	-5968	-6121	-5776	-5900	-5200
4. Invisibles net	4311	3804	3480	3900	3200
5. Balance on current account	-1657	-2317	-2296	-2000	-2000

* The difference between the Export-Import figures in Table XVI and Table XVIII is due to the former being net figures while the latter use FOB and CIF figures.

Source: Economic survey and RBI

In the current account balance of payments, the item which requires some examination is the invisibles, which comprise remittances from Indians working abroad, income from tourists visiting India, earnings from services such as transportation, insurance, films, income from Indian investments abroad and government and private transfers against which should be set the debt repayment and other interest payments on foreign capital invested in India. The net invisible declined sharply in 1984-85 due to the fall in the tourist traffic and the higher interest payment on external loans. The future (VII Plan) of invisibles is not very bright as with the slowing down of development and building programmes in the gulf countries remittances are likely to decline; Indian construction companies earnings abroad are also declining; capital inflows to deposit account of NRIs which fell from ₨378 crores in 1983-84 to ₨341 crores in 1984-85 as well as the net inflows under foreign currency NRI accounts which was ₨331 crores in 1983-84 and ₨275 crores in 1984-85 will continue this decelerating trend; while the burden of debt servicing will rise.

13.7 To work out the terms of trade for the country, it is necessary to quantify and construct indices of invisibles. This task is difficult because of (a) the varying rates of return on investments abroad, (b) the changing price of technical services and technology, and (c) the volume of transaction and services involved. This may be one reason why the net terms of trade takes a long time to be worked out, and the latest Economic Survey gives the terms till 1981-82 only as the following table shows:

Table XIX

Year	Net term of trade	Year	Net term of trade
1970-71	106	1976-77	77
1971-72	116	1977-78	95
1972-73	124	1978-79	90
1973-74	106	1979-80	66
1974-75	77	1980-81	58
1975-76	70	1981-82	76

Source: Economic Survey 1984-85

The table shows that the terms of trade turned against India from 1974-75 and has been consistently against the country since that time. The low points were 1979-80 and 1980-81 when the unit value of our imports were 50 to 70 per cent higher than that of our exports.

13.8 India's outstanding foreign debt on March 31, 1985 on government account was Rs27,336 crores (including the IMF loan) and on non government account Rs758 crores, totalling Rs28,094 crores. Excluding the new foreign debts to be contracted during the VII Plan, and the interest payments they will involve, the debt repayment on the current Rs28,094 crores (both IMF and non IMF loans) for the Seventh Plan will be as set forth in the table below:

Table XX

(Rs crores)

Year	Repayment of loan	Interest payment	Total
1985-86	1438	1405	2843
1986-87	1987	1469	3456
1987-88	2355	1483	3838
1988-89	2596	1449	4045
1989-90	2610	1181	3791

Source: Economic Survey and Reserve Bank of India

The total debt servicing of this amount begins declining from the VIII Plan, but when the debts contracted in the VII Plan are begun to be serviced, the amounts will rise. The total debt servicing as percentage of exports which was 22 per cent in 1970-71 declined to 14 per cent in 1982-83, but began rising to 15.6 per cent in 1983-84. (The World Bank report applying what it calls "the weighting by GNP in current dollars" refers to a lower debt servicing of 10.3 per cent for 1983).[55]

13.9 In addition the government has permitted borrowing from international commercial sources by private companies, public sector banks and public sector undertakings at the usual LIBOR plus 1 per cent interest charge, which varies from 8 to 12 per cent. The international commercial borrowing during the VI Plan is as follows:

Table XXI

Year	Borrowing (Rs crores)
1980-81	1038
1981-82	1204
1982-83	2026
1983-84	1085
1984-85	1906

Source: Ministry of Finance

In addition to this total of Rs7056 crores, for 1985-86 the government states that it will borrow Rs1000 crores and permit the private sector to borrow Rs1500 crores (Reliance Textiles Rs252 crores, Lohia Machines Rs35 crores, Sarvai Madhopur fertilisers Rs170 crores, Standard Motors Rs170 crores, Hindustan Lever Rs29 crores etc). In view of the stagnant export levels, it is important that the debt service ratio be kept down to about 15 per cent of exports, and the government and the private sector follow a cautious policy in international commercial borrowing. In this context, the World Bank which last year cautioned India against borrowing too heavily from the international commercial market,[56] in an assessment of the VII Plan draws the conclusion that its 5 per cent growth scenario will call for a gross annual foreign capital inflow of $34.5 billion during 1985-86 to 1989-90, compared to the inflow of $17.5 billion during the VI Plan. This is an annual average inflow of Rs8280 crores during the VII Plan against the annual flow of Rs4200 crores during the VI Plan, which is near the Economic Survey figure of official disbursement of Rs11,250 crores plus commercial borrowing of Rs7056 crores. But it points out that while for the VI Plan two thirds of the inflows were official concessional loans and one third commercial, for the VII Plan the proportions will be reversed. This means that the World Bank's forecast of and recommendations for India's annual commercial borrowing at $4.5 billion for this year and each of the coming 4 years, is one that should make us pause to work out alternatives to our growth path and pattern, so that we do not increase our foreign commercial borrowing four fold, and fall into 'the debt trap' that will follow. Even if half of this annual $4.5 billion is borrowed from commercial sources, the debt service ratio will cross 60 per cent of our export earnings.

13.10 The international payment position is seen in the level of foreign exchange reserves which is reported as rising by Rs1271 crores in 1984-85 compared to Rs1190 crores in 1983-84 as the following table shows:

Table XXII

Time	SDRs (million)	SDRs (Rs lakhs)	Gold (Rs lakhs)	Foreign Exchange Rs lakhs	Total (Rs lakhs)	Gross drawings under CFF & EFF in SDR (million)	Repurchase (SDR milli
March 82	425.1	444,27	225,58	3354,47	4024,32	866	-
June 82	398.6	416,40	225,58	3274,19	3916,17	1166	-
March 83	370.2	290,67	225,58	4265,26	4781,51	2166	-
June 83	219.8	237,06	225,58	4805,18	5267,82	2966	-
March 84	216.4	248,24	225,58	5497,85	5971,67	3966	66.50
June 84	330.8	382,05	225,58	5712,18	6319,81	4166	97.75
March 84	146.5	180,85	245,78	6816,78	7243,06	4166	199.50
May 85	333.4	414,65	246,67	6764,55	7425,87	4166	232.75

Source: Annual Report RBI 1984-85

But in June 1985 foreign exchange reserves dropped from the May level of Rs7425 lakhs to Rs6507 lakhs compared to the rise of Rs368 lakhs to Rs6319 lakhs in June 1984, which seems to support the World Bank's assessment of the foreign exchange crunch facing us in the Seventh Plan, which parallels the resource crunch facing us in the Plan. It is now possible to turn to the question of development of human resources and to the two end purposes of all Planning in India, - namely, the generation of employment and the alleviation of poverty.

14 Human Resource Development

14.1 Education: Progress in 1984-85 and during the VI Plan in universalising primary and adult education, so that the country's human resources can acquire the minimum learning and skills, which is not only the right of every person, but is necessary for the country's development, was unfortunately slow.

Primary education enrolment increased to 93.4 per cent and elementary education enrolment reached 76 per cent at the end of the Sixth Plan, with the drop outs upto class V continuing at 60 per cent and upto class VII at 76 per cent. If the gross enrolment ratios allow for overage and underage children, the net ratio is only 69.3 per cent.[57] In the area of primary education, the task in the VII Plan is not only to enrol 640 lakhs of children who are out of school and to correct the wide inter-state and inter sex disparities, but also to take steps to increase the holding power of schools, which can be achieved as the poverty of their parents is alleviated. Dropping out of school by children is a function of the poverty of their parents. Side by side with the programmes to decrease poverty, there is need not only to open primary and middle schools within easy walking distance of the students, but also to change the timings of the schools to make them coincide with the agricultured season in the rural country side, to effect multiple entry and exit points, so that students can enter and leave the school at any point of time, and to make the curriculum relevant to the agro economic life of the students. The other point of the universalisation of education is functional literacy education to be provided to the 110 million adult illiterates in the 15-35 age group. In 1984-85 2 million adult illiterates were given literacy education, so that by the end of the Sixth Plan 2.3 crores were given literacy education and 8.7 crores illiterates have to be made literate in the VII Plan. This is a key means of improving our human resources because the programme is addressed to working men and women in the rural areas. The main problem with this programme is the slow pace at which it deals with adult literacy, which at this rate will take 50 years to be completed. The time has come to follow the example of China, USSR, Cuba, Tanzania and Vietnam and mount a national campaign, in which all university, college and higher secondary students and teachers will act as literacy instructors to liquidate illiteracy in the VII Plan, to be followed by a massive

programme of production of reading materials for the neo literates. At the secondary and higher secondary levels expansion of the institutions has preceded apace in the VI Plan. This should be replaced by some restraint in starting new schools and in place introducing pre vocational and vocational courses, in order to enable the 80 per cent of students who terminate or fail at this stage find some gainful self employment. In the area of technical education - the training of engineers, technicians, craftsmen, agricultural scientists and medical scientists - there was progress in the VI Plan, not only in the 5 per cent increase in those trained, but through improved curricula and practical workshop or laboratory practice. It is in the field of general arts and science education, - both universities and colleges, - that there was mindless expansion during 1984-85 and the VI Plan, deterioration of standards, because of outdated curricula, and an unscientific examination system, which is anti-scientific because it encourages powers of memory rather than powers of reasoning, and is the occasion for corruption, cheating, duplicity, strikes, dharnas and violence. During the Seventh Plan the improvement in human resources at this high level will depend on (a) stopping the quantitative expansion of the colleges and universities and using the limited resources to improve teaching and learning, and (b) replacing the examination system by a system of continuous learning and self evaluation. A good deal of the improvement of the human resources depends on the teachers; there has been no attention paid to improving the quality and updating the knowledge of teachers. Rather during the VI Plan, the trade union activities of teachers has increased apace, and even the two Commissions of Teachers set up by the government concerned themselves, one with making 8 recommendations for schools teachers and the other making 9 recommendations for university and college teachers to improve and increase their pay and service conditions, as reported to parliament.[58]

14.2 The other area of human resources development is progress in Science & Technology. Here there are positive and negative elements to report. The Annual report of the Department of Science & Technology refers to the quantitative expansion of R & D. It refers to Rs1430 crores being spent on R & D by 2000 institutions in 1984-85 which is a 25 per cent increase over the 1981-82 expenditure of Rs1237.56 crores. This includes defence, atomic energy, space and oceans research and the total spent is 0.83 per cent of GNP. 87 per cent of it is reported to be spent by government and the rest by the private sector. In the industrial sector Rs343 crores was reported spent in 1984-85. The Seventh Plan working group on Science & Technology has identified 16 thrust areas, including agriculture, biomass, fertilisers, energy conservation, power, health, conventional and non conventional energy sources, and metals, for intensive R & D work. The positive side also includes the recent liberalisation in the import of technology which aims at increasing the productivity and efficiency of the industry importing the technology and reducing its high cost structure. The spurt in the number of foreign collaborations has been noted earlier and this, as well as the direct investment of NRIs and foreign firms, including multinationals, bringing in technology will gather momentum in the coming months. The process of understanding and adapting the technology imported has to gather strength and momentum. In this connection, the use of technology developed in India in the industrial field should follow the lead given by agriculture, where we have attained technological self reliance. The import of technology is important for our industrial rejuvenation and progress, but far more important is the development of indigenous technology, and the use of technology developed in our R & D institutions, for it is only such technologies that are suited to our objective of creating and increasing employment and expanding our small and limited markets. This is the negative part of the Science & Technology picture namely, our

heavy reliance on foreign technology which we do not absorb and assimilate. The other negative element is the slow and low role which the private sector plays in R & D. A survey of 106 private sector companies by the Associated Chamber of Commerce and Industry finds that the ratio of in house research and development expenditure to total sales turnover is 0.72 per cent compared to 2 to 3 per cent in industrialised countries. Of 47 responding units in the engineering industry, all but one have their own R & D facilities: in the textiles industry, while all man made fibres and woolen units have their own R & D cells, only 2 out of 6 cotton mills have research units. It lists the specific benefits from R & D in various industries, in terms of innovation, improvement in production and quality, reduction in costs and expansion in export performance, which a mere import of technology cannot ensure. Its general conclusion is that the research and development culture has not yet become part of the culture of the private corporate sector.[59] It is to this that we need to address ourselves.

15 Employment and Labour Relations

15.1 As usual, the information on employment generation is scanty, set forth in broad macro terms or has reference to particular "beneficiary" oriented programmes. The government reports[60] that the growth of employment during the VI Plan was in line with the targets. During the first four years employment in the organised sector increased by 8.9 per cent. As against the expectation of 34 million persons joining the work force during the Plan, 1980-85, 32.44 million standard persons years of employment was generated during the VI Plan. The report points out that the actual number of beneficiaries were more since, not every member of the labour force would be working full time during the entire year. The organised sector registered an employment growth of 2.7 per cent in 1981-82 at 234.9 lakh workers, 2 per cent in 1982-83 at 239.5 lakh

workers and 1.4 per cent in 1983-84 at 242.9 lakh workers. While employment in the public sector increased by 3 per cent in each of 1981-82 and 1982-83 and by 2.6 per cent in 1983-84 for a total of 9.1 lakh workers, employment in the private sector decreased by -0.3 per cent in 1982-83 and -1.2 per cent in 1983-84 to a total of -1.2 lakh workers. This trend to lower employment generation in the organised sector, particularly the private corporate sector, might be further strengthened in the VII Plan with its emphasis on production growth rather than on employment creation, and its technology bias in place of a labour bias. The emphasis on technology will mean labour saving and capital intensity, resulting in a lower increase in employment in the organised sector, while at the same time increasing the effort intensity of workers on the job.

15.2 The other programme in the organised sector is the scheme for providing self employment to the educated unemployed which was launched in 1983-84. The scheme operated by District Industrial Centres is reported by government to have provided self employment to 2.42 lakhs educated unemployed during 1983-84 with bank loans of Rs401.50 crores. In 1984-85 the scheme is to cover 2.5 lakh of educated youth, subject to the condition that atleast 50 per cent of them would pertain to the industry route and not more than 30 per cent opt for small business.[61] This programme is now completing its second year and while another year must pass before it can be evaluated by the Programme Evaluation Organisation (PEO) and other research bodies, there is an unexplicable pause now in the operation of the programme.

15.3 The government also reports that at the end of 1984 there were 745 employment exchanges in the country in which 235.47 lakh persons were registered for employment. Out of that number, the number of educated work seekers was 118.22 lakhs as of June 1984, up from 97.69 lakhs on January 1, 1983. Between January-June 1984 the number of matriculates registered

for jobs was 68.10 lakhs, the pre graduates 29.44 lakhs, graduates and post graduates 20.68 lakhs.

15.4 All the information above refers to the organised sector. In addition the government reports that the small scale sector in 1983 (which produced Rs41,620 crores of goods and services) provided employment to 84 lakh persons, and khadi and village industries made employment available to 35.50 lakh persons. Thus out of a total labour force of 2600 lakhs, the organised sector and the small scale and tiny sector provided employment to 365.50 lakhs, which is about 14 per cent of the work force. The problems of employment concerns the other 2200 lakh workers.

15.5 For this group of the work force, three programmes are in operation – NREP, TRYSEM and RLEGP. The government reports[62] that the National Rural Employment Programme (NREP) which is aimed at providing employment to the unemployed and under employed agricultural[1]/rural workers by generating employment opportunities in the rural areas of the order of 300 to 400 million mandays every year, and simultaneously creating durable assets, achieved the following in the VI Plan.

Table XXIII

Year	Cash(Rs crores) Availability	Cash(Rs crores) Use	Foodgrains(lakhs tonnes) Availability	Foodgrains(lakhs tonnes) Use	Employment generation(million mandays) Target	Employment generation(million mandays) Achievement
1980-81	346.32	219.03	15.62	13.34		413.58
1981-82	460.37	317.63	3.43	2.33	335.73	354.52
1982-83	540.54	394.76	3.57	1.72	353.22	351.20
1983-84	535.98	392.22	2.66	1.47	322.22	302.76
1984-85	460.00	327.32 (Upto January 1985)	3.09	1.01 (Upto June)	309.13	240.53 (Upto January)

Source: Ministry of Rural Development

With a view to assessing the achievements of the programme, the PEO reports that it conducted an evaluation of the programme in 9 states, from Jammu and Kashmir to West Bengal. On the basis of the information supplied by the government in the above table, it can be seen that (i) that the cash made available for the programme is never fully utilised in any of the five years, (ii) similarly the foodgrains are not used fully, and (iii) except for the first 2 years, the mandays created, such as they are, are short of the target. Further the assessment of the programme conducted by researchers in Gujarat, Maharashtra, Bihar as well as the 1979 PEO study show that (i) surplus labour is not being used for rural capital formation, (ii) the guidelines of NREP are not specific in ensuring the filling in of infrastructural gaps, or that the projects are based on the cost benefit principle, (iii) it generates inflationary pressures, (iv) much of the assets created are not permanent, as in the case of ruralroads which are washed away and (v) the programme suffers from a great deal of leaks and corruption. The Comptroller and Auditor General in his report to Parliament calls attention to the fact that six states did not give their full matching share to the schemes - UP (Rs1.70 crores), Bihar (Rs1.08 crores), Punjab (Rs84 lakhs). Rs 10 crores was outstanding against 9 states. Himachal Pradesh reported release of its full share of Rs1.20 crores but actually only Rs76 lakhs were released. On an average only 60 per cent of available funds were utilised between 1980-81 and 1983-84. This important employment generating programme needs to be decentralised and restructured so that some of its many defects and lacks can be corrected.

15.6 The Rural Landless Employment Guarantee Programme (RLEGP) aims to provide employment to rural landless, atleast to one member of every landless labour household upto 100 days in a year, and to create durable assets which will strengthen rural infrastructure. The programme was launched in August 1983,

to generate 60 million mandays of employment in 1983-84 and 300 million mandays in 1984-85. During 1983-84 an expenditure of Rs621.09 lakhs was incurred against a release of Rs1000 lakhs, 51.96 lakh mandays generated, and 1489.83 tonnes of foodgrains used. During 1984-85 Rs400 crores have been allocated to the programme and upto January 1985 Rs249.14 crores spent, and 0.63 lakh tonnes of foodgrains utilised, and 93.66 million mandays of employment generated. As the programme is only in its second year, it has not been evaluated. But here again, the programme should be decentralised to avoid the weaknesses of NREP.

15.7 The National Scheme for Training of Rural Youth for Self Employment (TRYSEM) launched in 1979 has operated during the 5 years of the VI Plan, equipping rural youth in the 18-35 age group with skills for self employment. 2 lakhs of rural youth are trained every year at the rate of 40 per block, the youth being selected from families earning less than Rs3500 a year. The training is through ITIs, master trainers and commercial and business establishments. The government reports that 9,15,697 rural youth were trained under the programme at a cost of Rs400 lakhs and that 4,29,613 of them (about 45 per cent) have established themselves as self employed. The Comptroller & Auditor General after his examination states that only 13 states took up the scheme (unlike the government report which states that 21 states participated in it). He reports that in Tamil Nadu 4174 youth were trained in tailoring, but only 1371 were supplied with sewing machines, the rest being unemployed, that upto March 1984, 2,79,870 were trained but only 99,884 were provided with funds so that "the training of others became fruitless" and the "stipend paid to the trainees became fruitless". A PEO evaluation reports uneven implementation of the scheme, namely, that only 50,189 youth including 24 per cent women and 31 per cent scheduled castes and tribes were trained in 3 years from 1980-82. In many areas, the state governments

have not availed of the services of established firms for providing the training, instead polytechnics and government institution were used. The other deficiencies reported are improper selection of trainees without a prior survey, undue concentrations on a few vocations, lack of aptitude of trainees, minimum involvement of DICs, poor infrastructural support to enable the trainees to follow the pursuits in which they had attained skills, lack of coordination among DICs, banks and training institutions, and lack of follow up/of trained youth. This programme also is thus attaining only a part of its important and worthy aims.

15.8 The scheme for workers participation in management introduced in 1984-85 covers in principle all union public sector undertakings, but is being gradually implemented. Workers and management have equal representation at the shop floor and plant level participating forums. At the Board level the workers representatives are to participate in all the functioning of the Board. That is the key provision and on its faithful fulfilment will depend workers and trade unions' support to this otherwise laudable scheme.

15.9 During 1984-85, minimum wages were revised for employment in agriculture, construction and maintenance of roads and buildings, construction and maintenance of run aways, and 29 mining employments. The problem here is the non implementation of the established minimum wages. In one of the latest surveys conducted by the Labour Bureau, Shimla, of the implementation of the minimum wage legislation for agricultural labour in one of the larger states, it is reported that (i) the 1982 statutory minimum wages of Rs8.50 per day in cash is not paid, but the Rs4.5 fixed in 1975 is being paid, (ii) against the statutory wage of 5kgs of paddy or grains of the same value per day, the wage paid varied from 1 kg to 4 kg of paddy per day, (iii) the proportion of labourers working

getting cash wages was the highest in backward districts (40 per cent), followed by 24 per cent in the not so backward districts, while no cash payments were made in the developed districts, (iv) the statutory wage for harvesting fixed at one bundle for every ten bundles of items of the harvested crop, against which in the middle level districts the wage paid is one for every twelve bundles of harvested crop and in backward districts one bundle for every twenty.[63]

15.10 The government reports that 11 state governments state that as at 31st December 1984, 1,73,814 bonded labourers were identified and 1,31,407 rehabilitated. For 1984-85 36,633 labourers from 10 states are to be rehabilitated. The union government has started a scheme to provide the states Rs4000 per freed bonded labourer for land based schemes or dairy or craft based schemes. As the Rs4000 is inadequate, the states have been advised to integrate the rehabilitation of bonded labourer with IRDP, NREP, DPAP or the sub components of SC & ST sub plans. The problem is the slow pace at which this programme is proceeding in view of the fact that the Labour Bureau - Gandhi Peace Foundation national survey in 1979 reported that the number of bonded labourers in the country is 22.4 lakhs.

15.11 The annual report states that in 1984 there was an improvement in industrial relations as measured by the number of mandays lost due to strikes and lock outs, which declined from 31.64 millions in 1983 - to 22.89 million in 1984 (January-September). Similarly the number of strikes declined from 1826 in 1983 to 1111 in 1984 and lock outs from 470 to 263. This improvement is supported by evidence on improved conditions of work which a survey by the Labour Bureau, Shimla, of the canning, preserving and processing of fish, crustacean and similar foods industry, about production and related workers

forming 82 per cent of the work force, with both time and piece rates being in vogue, the average daily wage being Rs17.52 for men and Rs11.90 for women, the hours of work being 8 and work for one shift, with drinking water facility and no child labour.[64]

16. Poverty

16.1 As I stated in previous mid term reviews, the only purpose of Planning in India and the working of all the subsectors of the eoonomy reviewed thus far is to relieve and alleviate poverty and aim at its removal. I have some difficulty in this year's mid year to review the results of the 1984-85 Annual Plan and the Sixth Five Year Plan on poverty in the country. The National Sample Survey has completed its 38th round of consumption patterns and expenditures of individuals, families and deciles for the year 1983. The results of this round are not yet available to parliament and the public, but has been made available to the Planning Commission, which set up a committee headed by one of its members to study, analyse and interpret the data contained in that 38th round. On the basis of that study, the Prime Minister announced in a public meeting in July that in four years the poverty level dropped from 51 per cent in 1980 to 37 per cent in 1984. The Minister of State for Planning elaborated on this in his reply to a question in parliament on August 1, 1985. He stated that the percentage of people below the poverty line in the country had declined from 48.3 in 1977-78 to 37.4 in 1983-84. Quoting NSS reports, he reported that the poverty ratio in rural areas came down from 51.2 to 40.4 and in urban areas from 38.2 to 28.1 during the period 1977-78 to 1983-84. On this basis, the Prime Minister, as chairman of the Planning Commission, states that it will be possible for the country to reduce the poverty percentage to 10 by the end of the century. Until the 38th round of the NSS is available to me and other

researchers, it is not possible to comment on the conclusion of the Planning Commission, which should be noted at this stage.

16.2 Poverty alleviation stems from two sources. The first source is the general development of agriculture, manufacturing industry, infrastructure, manpower development and the services, and I assume that the NSS round results largely from this source. The second source of poverty alleviation is what is called the beneficiary oriented programmes, of which the major ones are NREP, RLEGP, TRYSEM, IRDP and land reform and distribution. In the preceding section the pluses and minuses of the employment generating programme were reviewed and the conclusion was that NREP & TRYSEM are so ineffectively executed that the beneficiaires lose a great part of the benefits addressed to them. RLEGP has just been launched and so it is too early to say anything about its effectiveness.

16.3 On IRDP, there is now a plethora of studies and evaluations by PEO, NABARD and NABARD commissioned surveys, state governments and research bodies. One synthesis of these studies[65] puts together all the weaknesses revealed in the programme comprising the following: (1) from being an integrated development plan based on local resources in each block in the Draft Plan 1978-83, it became a straight one dimensional attack against poverty programme in the VI Plan: (2) there was no counter check of the classification of the poor done by the District Rural Development Authority (DRDA): (3) the poorest who were covered is not in proportion to their numbers in each village: (5) the total number of beneficiaries in the first four years of the Plan was 125.85 lakhs with per beneficiary investment ranging from Rs1642 to Rs3107 which was inadequate: (6) 40-50 per cent of investment and the beneficiaries related to dairy, sheep, bullock and camels, 20 per cent to minor

irrigation and 25 per cent to non farm activities: (7) dairy, sheep and goat schemes faced problems of death of animals (50 per cent) because of poor grazing ground, lack of fodder, high cost of maintenance during dry period, high mortality of sheep due to disease and hot winds from which even the owners had little protection: (8) sale of camels and cattle, even by those who showed increase in income and if repayments to bank loans are taken into account there was no increase in income: (·) the milch cattle usually of poor cattle and sold to others being helped and so the same cattle went round being bought and sold among the beneficiaries: (1) in the case of minor irrigation, there was 50 per cent leakages. With wells not dug but subsidy taken: (11) when adjusted for price rise and the non poor who were being helped under the programme, (on which also the RBI concurs), only 10 per cent crossed the poverty line: (12) this is not an administrative problem, not a case of a need for motivated workers, because the scheme makes a wrong assumption about the ability of the poorest of the poor to use assets gainfully to cross the poverty line: they do not have this ability, so the study concludes that IRDP should be replaced by NREP. While accepting the analysis of the failures of IRDP which is based on survey data, the conclusion that the programme should be replaced by a straight wage employment programme is rejected by NABARD and other scholars[66] with which I associate myself. There is a well developed tradition of self employment in the rural areas and among the poor, which should not be substituted by a programme of wage employment. In addition to the NABARD and other studies on the IRDP referred to above, the Comptroller and Auditor General in his report to Parliament for 1983-84 states that the proclaimed achievement of helping 1.47 crore families to rise above the poverty level through IRDP, leaving 32 crores in poverty, is false and fictitious. He reports that against the allocation of Rs16.31 crores for the programme in 6 years, only Rs13.1 crores were spent. UP, West Bengal,

Andhra Pradesh, Karnataka, Tamil Nadu, Orissa, Kerala, Jammu & Kashmir and Bihar could not spend even the union governments' share and submitted misleading accounts to the union government. The Planning Commission sanctioned Rs4500 crores for IRDP in VI Plan but only 25 per cent was used. The Comptroller gives 112 instances ranging from not following the 50 per cent norm for the subsidy which varied from Rs173 to Rs1500, to corrupt practices in the distribution of subsidies, the purchase of banquet chairs and sofa cum bed settees from IRDP funds by a Kerala district magistrate, the purchase of colour TV and air conditioners from the funds in Delhi, (which were admitted by the government in Parliament[67], the only remedy suggested being to ask for the money to be repaid to the union government) the purchase of a lorry and a matador for a State Corporation in Andhra Pradesh, the expenditure on crop demonstration in Bihar, the running of a training centre for its small scale industries by Haryana, the purchase of whisky, rum, beer, soda, lunch, tea and biscuits from the fund in Himachal Pradesh, using the funds for developing handicrafts by Jammu and Kashmir, using of the funds by Karnataka for buying motor cycles and housing of its staff, Maharashtra using the funds for artificial insemination, Madhya Pradesh paying salaries of its employers with the funds, Orissa financing a tank fishery project, UP diverting the funds to fisheries, handloom and its other corporations, West Bengal expanding them on rickshaw vans, minitrucks, etc all these and more are documented. The Comptroller and Auditor General also finds incorrect accounts by states. The Prime Minister after his visit to rural and tribal areas and talking to the people there, has thrice including once in parliament[68] on the basis of his visual impression stated that IRDP needs complete restructuration. The optimistic conclusion, referred to earlier, is that 10 per cent of the 1.42 crores to whom this programme was addressed - all of them not the porrest, - crossed the poverty line.

16.4 On land reforms, the government reports that as at end of 1984, 43.25 lakh acres have been declared surplus, 30.04 lakh acres have been taken possession and 21.64 lakh acres have been distributed to 16.28 lakh families.[69] I call attention to 3 features of this programme to remove poverty. First I reported in last year's mid year review that 20.35 lakh acres had been distributed, which means that in 1984 only 1.29 lakh acres have been distributed. At this rate, the 1984-85 2 lakh acres target will not be met. Second inspite of all the ceiling laws table XII in this review shows that there are 2.4 million land owners who each owns and operates above 10 hectares which is 26.3 per cent of all land at 42.8 million hectares, giving each an average of 17.83 hectares. Third this is further support of the farce of the land ceiling laws, which ignore the fact that surplus land above the minimum ceiling is not 42.8 million hectares but nearer 120 million hectares, as I have repeatedly pointed out.

16.5 Thus on the basis of our falling, faltering failing beneficiary oriented programmes - NREP, RLEGP, TRYSEM, IRDP, land reforms, - my studies indicate that from these beneficiary oriented programmes, 5 million people per year living in poverty are benefited. Our population growth adds that number every year to the poverty spectrum, so that these programmes have a negative function, of not allowing an increase in the absolute number of our poor.

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ANNEX I

Delicensed Industries

1. Special alloy and malleable iron castings, sponge iron and pelletisation.

2. Steel structurals.

3. Electrical equipment - (a) equipment for exploitation of alternative sources of energy like solar, wind power, biomass including biogas, geothermal energy, tidal power and sea power; (b) steam turbines of and below 20 mw and mini and micro hydel systems equipment; (c) power and distribution transformers, power capacitors, switch gears, electrical motors and GLS lamps and diesel generating sets.

4. Electronic components.

5. Automative ancillaries.

6. Cycles.

7. Industrial machinery, including rubber machinery, printing machinery, footwear machinery, meat and poultry machinery.

8. Machine tools

9. Agricultural implements.

10. Miscellaneous mechanical and engineering industries —
a) plastic moulded goods, b) hand tools small tools and cutting tools, c) pressure cooker, cutlery and steel furniture, d) lanterns of all types, e) fuel efficient stopes, f) water pumps beyond 10 cm.

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11. Industrial sewing machines.

12. Office-equipment; Multiplication and reproduction equipment, word processors, cash registers/invoicing machines, dictaphone, micro-filming, microfiche readers.

13. Surgical, industrial and scientific instruments.

14. Industrial and medical gases

15. Following drugs and intermediaries - Rifampicin, Dapsone, clafazimine, Primaquin, Ethoxy Methylene, Malonic Easter, Neval-diamine, Insulin, anti-cancer drugs, Vitamin B6, Norgestral, Piperazine, new bulk drugs developed through indigenous research.

16. Paper and pulp - writing, printing and wrapping paper from agricultural residue, waste and bagasse and cotton seed linter pulp.

17. Canned fruit and vegetable products, protein and processed foods, vegetable based weaning food, marine products and cattle feed.

18. Vegetable oils, namely solvent extraction of oil, oil cakes from minor seeds excluding cotton seeds and rice bran oil.

19. Soap and cosmetics, namely soap, cosmetics, perfumory and toilet preparations and detergents of ISI standards.

20. Leather goods

21. Surgical and medical rubber products

22. Glassware

23. Ceramics - refractories and furnace lining bricks, chinaware, pottery and sanitary ware, HT insulators, tiles and graphite ceramics.

24. Insulating boards, gypsum boards, wall boards and the like.

25. Printing including litho printing.